Canadian Pacific
Limited

1982

Annual Report

Summarized Statement of Income of Canadian Pacific Limited

	1982	*1981*	*Increase or (Decrease)*
		(in millions)	
Net income from:			
CP Rail	**$117.9**	$127.2	$ (9.3)
CP Air	**(39.2)**	(22.8)	(16.4)
CP Ships	**(20.0)**	43.8	(63.8)
CP Trucks	**1.5**	5.5	(4.0)
Soo Line Railroad Company	**13.6**	23.0	(9.4)
CP Telecommunications	**5.1**	4.9	0.2
Miscellaneous	**3.4**	17.0	(13.6)
Canadian Pacific Enterprises Limited	**106.0**	287.0	(181.0)
Net income	**$188.3**	$485.6	$(297.3)
Per Ordinary Share:			
Net income	**$ 2.60**	$ 6.75	$ (4.15)
Dividends	**1.65**	1.90	(0.25)

1983 Annual General Meeting

The Annual General Meeting of the Shareholders is to be held on Wednesday, May 4th, 1983, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m., Montreal time.

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Canada H3C 3E4

Legal deposit, 1st quarter (1983)

To the Shareholders

1982 was a difficult year – for business, for labour and for governments. Profits fell, unemployment climbed, and budget deficits grew. It was a year that placed a high premium on adaptability, a quality that will continue to be indispensable in the period ahead, as the economy climbs slowly out of the worst recession in half a century.

In 1982 the Company's consolidated net income fell to $188.3 million, from $485.6 million in 1981. Per Ordinary share, earnings amounted to $2.60, compared with $6.75 in the previous year.

Non-consolidated net income of the Company, comprising principally income from CP Rail and CP Telecommunications and dividends from subsidiaries, amounted to $235.2 million, or $3.26 per Ordinary share. This compared with $270.9 million, or $3.76 per share, in 1981. Based on these earnings, the Company declared dividends of $1.65 per Ordinary share in 1982 and $1.90 in 1981.

Earnings of almost every operation of the Company declined. The most significant reduction occurred in income from Canadian Pacific Enterprises Limited, but there was also a marked deterioration in bulk shipping and airline results.

Net income from CP Rail of $117.9 million was down $9.3 million from 1981. However, had it not been for substantial Government payments related to outstanding claims for prior years for the operation of uneconomic branch lines and the effects of accounting changes mandated by the Canadian Transport Commission, Rail net income for the year would have amounted to approximately $56 million.

The loss incurred by CP Air, amounting to $39.2 million, was $16.4 million greater than in 1981. CP Air's loss in 1982 was after net gains of some $13 million on disposals of aircraft and a reversal amounting to $6 million after tax, of Federal Transportation Fuel Compensation Recovery Charges introduced during 1981 and subsequently cancelled. The factor chiefly responsible for the increase in the loss was reduced demand for air travel, which resulted in excess capacity in the industry and intensified competitive pressures.

The Bulk Shipping Operations of CP Ships incurred a loss of $17.6 million, in contrast to a profit of $44.0 million in 1981. This drop was caused mainly by the recession in world shipping markets, but there was also a reduction of $12.4 million in gains on sales of vessels. A loss by Container Operations of $2.4 million was $2.2 million greater than in 1981 because of reduced volumes and lower rates, due to the recession and severe competition.

Net income from CP Trucks declined $4.0 million, reflecting not only the recession, but also the effects of a two-month strike by the Teamsters' union in Ontario late in the year.

CP Limited's 55.7% share of the income of Soo Line Railroad was down $9.4 million, mainly because of the U.S. recession and increased competition.

Telecommunication earnings, at $5.1 million, were up $167,000. Miscellaneous income was down from 1981.

Net income of CP Limited from its 70.3% interest in Canadian Pacific Enterprises Limited was down $181.0 million from 1981. The sectors largely responsible for this were mines and minerals, forest products and iron and steel, all of which incurred losses. There was improvement in income from the oil and gas, real estate and financial sectors.

The loss from mines and minerals was due to the effects on Cominco of reduced prices and lower sales volumes for most products.

In forest products, CIP Inc., acquired October 1, 1981, incurred a substantial loss owing chiefly to weak markets for pulp and paper products and high interest costs. Depressed market conditions were also responsible for a downturn in income from Great Lakes Forest Products.

Iron and steel results deteriorated sharply as Algoma Steel suffered from a drop in shipments, a less profitable product mix, depressed steel prices and increased costs.

In response to the worsening economic situation, the Canadian Pacific group began early in 1982 to institute cost-cutting measures. Operating expenses were curtailed in line with the lower level of business activity and implementation of capital programs was deferred wherever possible.

To hold costs down, all the transportation businesses intensified their fuel conservation programs. In addition, CP Rail and Soo Line reduced spending on track work and equipment repairs in line with the lower level of operations. CP Air cut service to some destinations, began utilizing smaller aircraft on certain flights, reduced the number of aircraft types, and initiated discussions with other carriers to integrate services and cooperatively feed traffic to one another's routes. Bulk Shipping Operations continued a program to fit vessels with equipment to facilitate crew reductions, extended the interval between drydockings, and carefully controlled manning and maintenance expenses.

Among the companies of Enterprises, restraint programs included inventory reductions, temporary plant closures and work-sharing programs, particularly in the mines and minerals, forest products and iron and steel sectors.

As the year progressed and weak economic conditions persisted, it became necessary in most operations to impose hiring and salary restrictions and reduce staff levels through attrition and, unfortunately, in certain instances, through layoffs.

While some expense reduction programs adopted, such as layoffs and plant closures, were temporary, others are ongoing and will continue to produce savings and improve efficiency.

During the year, the Federal Government extended its public sector wage-control measures introduced in the June 1982 Budget to include employees of CP Limited and its subsidiaries who are employed in the operation of a railway and to the employees of certain other railways. Under the legislation, wage increases for such employees have been restricted to 6% in 1983 and 5% in 1984.

Although capital spending was pared as much as possible during the year, expenditures still exceeded $2 billion on projects to maintain or enhance the Company's earning power.

CP Rail's cash capital expenditures in 1982 amounted to some $257 million, principally for basic road improvements and new freight equipment. On February 1, 1983, the Minister of Transport announced the Federal Government's policy for revising the statutory – or Crow – grain rates. The announcement included the Government's intention to make interim payments of up to $313 million to the railways to offset in part their losses from grain transportation for the crop year 1982-83. Approximately half of this amount would be paid to CP Rail. These payments, together with the extension of incentive capital cost allowances, will make it possible for CP Rail to undertake in 1983 a program of cash capital expenditures of $315 million; this is some $135 million greater than would have been possible otherwise.

Enactment by Parliament of legislation to provide sufficient levels of revenue to the railways on a current and continuing basis for the carriage of grain is expected during 1983. This would enable CP Rail to proceed with plans for a $3 billion capital program over the next five years to expand and improve its overall railway capacity in Canada. The five-year plan encompasses construction of added main line capacity, of which a central feature is the Rogers Pass tunnel project.

During 1982 CP Air took delivery of four new Boeing 737-200's and two DC-10-30 aircraft. Three older Boeing 737's and one DC-8-63 aircraft were sold and the four remaining DC-8-63's were retired from service. Two Boeing 727-200's, which were retired from service in 1981, are on lease through most of 1983, and an additional two older 737's were sold early in 1983. Aircraft on order include two new Boeing 737's and four Boeing 767's, all to be delivered over the next three years. As a result of acquisitions and disposals, CP Air's fleet is now one of the most modern, fuel-efficient in the industry.

The Company's Bulk Shipping Operations added two new 64,000-ton dry bulk carriers to the fleet during the year and sold a very large crude oil tanker. Scheduled for delivery in 1983 are two additional new 64,000-ton dry bulkers that were ordered in 1980.

Canadian Pacific Express & Transport expanded its cross-Canada services by acquiring two trucking businesses in the Atlantic provinces – Moffatt Bros. Limited and Zot Transportation Limited.

PanCanadian Petroleum continued to explore for and develop oil and gas reserves. Cominco progressed expansion and modernization programs previously under way and also agreed with another company to evaluate, and possibly develop, a large zinc-lead-silver deposit in northwestern Alaska. Fording Coal has entered into a joint venture as an equal partner with the City of Edmonton to construct and operate a thermal coal mine in Alberta. Great Lakes Forest Products, CIP and Algoma Steel all continued modernization and expansion programs that were in progress, and Marathon Realty completed projects to construct office buildings and to expand and modernize shopping centres. AMCA International acquired Giddings & Lewis, Inc., a U.S. machine tool and industrial products company.

Late in 1982, Enterprises made a public issue of 3.4 million common shares in Canada. At the same time, CP Limited purchased 7.9 million shares at the public offering price to maintain its equity interest in Enterprises.

Significant improvement in Canadian Pacific earnings will have to await economic recovery, for the Company's fortunes are strongly influenced by the state of the North American economy. The recession has proved to be far more severe than any in the post-war period and although signs of recovery are now beginning to appear, only modest improvement in the economy is foreseen for 1983. The Company is fully prepared to take advantage of whatever improvement there is.

The many problems of 1982 could not have been handled as well as they were without the understanding and commitment of officers and employees throughout the organization. The Directors are deeply appreciative of this, and are confident that the response to the challenges of the future will be just as effective.

For the Directors,

W.W. Atkinson

President

I.S. Burbidge

Chairman and
Chief Executive Officer

Montreal, March 14, 1983

Consolidated assets of the Company amounted to $17,273 million at December 31, 1982, up from $11,002 million at the end of 1979. Over this three-year period the net investment in properties increased $5,296 million. Long term debt rose $2,710 million and working capital decreased $42 million. Minority shareholders' interest in subsidiary companies increased $832 million and shareholders' equity was up $1,003 million. Equity per Ordinary share rose from $41.17 at year-end 1979 to $55.29 at the end of 1982. The debt/equity proportions were 38/62 at year-end 1979 and 47/53 by the end of 1982. Interest coverage was 6.6 times in 1980, 4.6 times in 1981 and 1.9 times in 1982. Income per Ordinary share fell from $8.11 in 1980 to $2.60 in 1982 and dividends per Ordinary share decreased from $1.85 to $1.65 in 1982.

Additions to properties of $1,967 million during 1982 were financed mainly out of funds from operations of $1,007 million and from the issuance of $1,542 million of long term debt. Working capital decreased $384 million during the year, due mainly to lower income levels.

Of the additional debt in 1982, a total of $165 million was provided by term loans for the acquisition of new aircraft and support equipment, $93 million came from the issue by CP Limited of U.S. $75 million ten-year collateral trust bonds and $61 million was in the form of mortgages on the two new dry bulk carriers delivered during the year.

Cominco's needs for additional financing were met by arrangements for a term loan of $100 million and the issuance of cumulative redeemable preferred shares to the public for $50 million. Great Lakes Forest Products borrowed $84 million to supplement its cash flow in financing capital projects. Algoma Steel's cash position benefitted from two debt issues, one for $50 million and the other for U.S. $100 million. AMCA International's debt increased some $60 million, largely the result of the additional borrowings to finance the acquisition of Giddings & Lewis, Inc. AMCA also raised $100 million through an issue of common shares which was used to reduce term debt. Marathon Realty arranged bank loans aggregating $126 million, to provide funds for new developments and to retire construction loans. Canadian Pacific Securities Limited issued debt totalling some $302 million, of which $247 million was loaned to CIP Inc. in order to reduce floating rate debt owed to third parties and to supplement funds from operations. PanCanadian Petroleum continued its oil and gas exploration and development activities during the year with funds provided by internal sources.

Subsequent to year end, CP Limited issued U.S. $50 million equipment trust certificates, dated March 1, 1983 and maturing March 15, 1988. These certificates form part of the Company's U.S. $125 million shelf registration filed with the Securities and Exchange Commission in October 1982.

To alleviate what had become an excessive burden of debt, CP Air's capitalization was restructured effective January 1, 1983. The recapitalization provided for the transfer by CP Limited of ownership of 21 aircraft formerly leased to CP Air having a net book value of some $500 million, in exchange for 30 million additional common shares of CP Air and assumption

by CP Air of some $260 million of third-party debt. CP Limited purchased an additional 4 million CP Air shares for $20 million cash. The recapitalization has resulted in a debt/equity proportion of 72/28, which is more in line with the industry level. This will have a favourable effect on CP Air's results and cash flow in 1983 due to a reduction in interest expense on long term debt.

Late in 1982, Enterprises issued 3,350,000 common shares to the public in Canada. CP Limited concurrently purchased 7,941,718 shares at the public offering price to maintain its equity interest in Enterprises. The total net proceeds to Enterprises of $198 million were used for additional equity investment in CIP Inc. and in AMCA; the latter investment was through the purchase of some 2.9 million common shares of AMCA at the same time as AMCA sold 2.7 million common shares to the public. After giving effect to these issues, Enterprises and Algoma Steel held approximately 16% and 35%, respectively, of the common shares of AMCA, thereby retaining a combined ownership of 51%.

The Company's total unused commitments at the end of 1982 for long term financing amounted to $1,252 million, at interest rates varying from 8% to 8¾% on $250 million and bank prime or money market rates on the balance, with commitment fees on $859 million ranging from ⅛% to ½%. Total unused lines of credit for short term financing, subject to periodic review, totalled $997 million.

Total commitments for capital expenditures amounted to $877 million at the end of 1982.

New aircraft on order include two new Boeing 737's to be delivered in 1983 and four Boeing 767's to be delivered in 1984 and 1985. Funds will be provided mainly by loans from the Export-Import Bank of the United States, commercial bank loans, and internally generated funds.

In the shipping sector, the program provides for the purchase of two new "Panamax" bulk carriers to be delivered in 1983. Financing is being provided 80% by mortgages from a Danish credit facility, and the balance from internal sources.

Cominco is continuing with the modernization and expansion of its Trail metallurgical plant and Sullivan mine, although certain projects involved have been deferred. Costs are to be met from internally generated funds supplemented by outside financing.

Algoma Steel's commitments at year-end 1982 were mainly for a new coke oven battery and a seamless tube mill. Although construction of both these facilities has been suspended, Algoma is continuing to take delivery of equipment for the tube mill.

Marathon Realty's projects comprise the completion of properties under construction and development and the acquisition of land, to be financed by construction loans and long term mortgage commitments.

Review of Operations

CP Rail

Net income from CP Rail amounted to $117.9 million in 1982, down from $127.2 million in 1981 and $121.6 million in 1980.

Settlement of certain long-standing costing issues resulted in payments by the Federal Government in 1982 of $88 million in respect of prior years' claims for compensation for operating uneconomic branch lines. In addition, changes in accounting rules made mandatory by the Canadian Transport Commission, effective January 1, 1982, produced an increase in before-tax income of some $37 million.

Rail revenues totalled $2,147.1 million in 1982, $2,071.0 million in 1981 and $1,773.6 million in 1980. The additional revenue in 1982 was due to Government payments, which were up $90.7 million and to the effects of accounting changes. Freight revenue fell $28.6 million, as a significant drop in volume more than offset higher prices charged for freight services and the additional revenues attributable to the change in accounting. There were decreases in revenue from most commodity groups, particularly iron and steel. The increase in revenues in 1981 over 1980 was attributable largely to improved prices charged for freight services; significant gains occurred in revenues from coal, iron and steel, piggyback, containers and liquefied petroleum gas.

Expenses amounted to $2,029.2 million in 1982, up from $1,943.8 million in 1981 and $1,652.0 million in 1980. The 1982 figure included some $49 million attributable to accounting changes. In line with the reduced business activity in 1982, early action was taken to cut back expenses as much as possible. Nevertheless costs continued to rise. On average, labour rates were up some 13% over 1981, fuel prices rose almost 17% and prices for other materials and services increased 11%. The expense increase in 1981 over 1980 was due primarily to escalation of fuel and material prices, and labour rates. The average price of fuel was up 47% over 1980; material prices rose some 14%; and labour rates increased approximately 13%.

During 1982, labour agreements were signed with all major bargaining groups. The agreements provided for wage increases of 12% in 1982 and 9% in 1983 together with cost-of-living allowance provisions. However, the Federal Government's extension of its public sector wage-control measures to include railway employees reduced the 9% provision for 1983 to 6% and extended the contracts an additional year to the end of 1984 with a 5% wage increase effective January 1, 1984. Cost-of-living adjustments for both 1983 and 1984 were eliminated.

CP Rail has agreed to comply with the price guidelines of the Government's 6 and 5 restraint program.

The announcement of the Government policy on revision of the Crow grain rate issue has a positive effect on the prospects of CP Rail. The Government proposals encompass annual payments on a permanent basis of some $650 million per year to the railways and the grain producers as the "Crow Benefit" – defined as the difference in the 1981-82 crop year between the amount paid by producers and the actual railway costs of moving grain. The Government would also pay a share of future cost increases. Beginning in 1983-84, a declining percentage of the payments would be paid to the railways and an increasing percentage to the producers, thereby assisting the latter to pay higher prices for moving grain. Legislative enactment of these proposals would have a beneficial effect on railway finances and would thus enable CP Rail to go ahead with its plans for expanding Canadian railway capacity to handle the growth in traffic forecast for the coming decade.

CP Air

The loss from CP Air amounted to $39.2 million in 1982, after payment of preference dividends. In 1981 CP Air incurred a loss of $22.8 million, while a profit of $2.8 million was earned in 1980.

Dividends on the outstanding preference shares amounted to $4.5 million in 1982, compared with $5.3 million in 1981 and $4.0 million in 1980.

Revenues totalled $880.7 million in 1982, up from $827.6 million in 1981 and $698.2 million in 1980. Included in the increase over 1981 were gains totalling $25.8 million on disposal of three Boeing 737's and one DC-8-63 and other equipment during 1982. The balance of the increase was due largely to a higher contribution from the cargo, mail and charter sectors, reflecting greater capacity. Passenger revenue was up fractionally,

as improved yields were almost entirely offset by a drop in traffic volume. Most of the revenue increase in 1981 over 1980 came from higher passenger revenue, due mainly to improved yields, but also to greater traffic.

In response to the drop in demand for air travel CP Air reduced the frequency of flights to South America, amalgamated new services to Saskatoon and Regina to one flight daily from each of Toronto and Vancouver, and cut back significantly its services to Northern B.C. and the Yukon. Late in the year, CP Air entered into an agreement with Eastern Provincial Airways to investigate the feasibility of integrating certain sales, equipment and ground handling operations. The company is currently engaged in restructuring its domestic routes using the hub and spoke system with Toronto and Vancouver as hubs. In addition, cargo and charter operations are being expanded substantially.

Total expenses amounted to $915.4 million in 1982, $845.1 million in 1981 and $691.4 million in 1980. Of the increase in 1982, more than 50% represented higher depreciation and interest charges reflecting the addition of new aircraft during the year. Despite a reduction in the work force, labour expenses were up some $21 million, or 8%. Fuel expense was down $6 million due to the reversal in 1982 of $10.5 million of 1981 charges as a result of cancellation of the Federal Government's Transportation Fuel Compensation Recovery Charge. While fuel consumption fell almost 5%, the average price of fuel rose more than 12%. The expense increase in 1981 was due largely to escalation of fuel prices and labour costs; there were also significant increases in depreciation and interest charges due not only to the acquisition of new aircraft but also to higher interest rates.

Interest charges in 1983 will be down from 1982 reflecting the reduction in CP Air's long term debt as a result of the restructuring of its capitalization.

In view of the prospect for continued softness in demand for air travel, excess capacity and intense competition will make 1983 another difficult year for CP Air and the whole airline industry. Improvements in operating efficiency and productivity resulting from CP Air's expense reduction program should enable the company to return gradually to profitable operations once economic recovery gets under way.

CP Ships

Bulk Shipping Operations

Bulk Shipping sustained a loss of $17.6 million in 1982, in contrast to profits of $44.0 million in 1981 and $51.4 million in 1980. Results over the three-year period included net gains on the sale of vessels amounting to $1.7 million in 1982, $14.1 million in 1981 and $4.7 million in 1980.

Excluding gains on the sales of vessels, total revenues amounted to $108.3 million in 1982, down from $170.4 million in 1981 and $189.6 million in 1980. The deterioration since 1980 was due to the effects of the deepening recession on world shipping markets. As a consequence, oversupply conditions prevailed and rates were down substantially.

Although shipping markets have been prone to periodic slumps in the post-war period, none has been as deep and long lasting as the current one. Any sustained recovery must await a reduction in the over-supply of vessels, improvement in the international economic environment, and an end to the oil glut.

Expenses totalled $127.6 million in 1982, $140.5 million in 1981 and $142.9 million in 1980. The reduction in 1982 was the result of changes in fleet composition and efforts to curtail operating costs to the lowest practical levels. Savings were achieved by keeping repair costs as low as possible – intervals between drydockings were extended and on-board maintenance was reduced. An additional factor contributing to lower expenses was the decrease in the value of the pound sterling in relation to the Canadian dollar. The slight expense decrease in 1981 from 1980 reflected savings arising from winding down a subsidiary company, as well as the favourable effects of the lower value of the pound sterling.

Container Operations

Container Operations incurred a loss of $2.4 million in 1982. This compared with a loss of $197,000 in 1981 and a profit of $919,000 in 1980. The decline over the period was the product of the depressed state of trans-Atlantic trade and the severe over-capacity situation, which exerted strong downward pressure on rates.

1982 was the first full year of operation of the new co-ordinated container service by Canadian

Pacific in conjunction with Dart Canada and Manchester Liners. The service comprises the operation between Canada and Western Europe of four large container vessels – one owned by each participant and the fourth chartered jointly. The three participants share the space on the vessels, thereby producing cost efficiencies and competitive advantages.

During 1982 Canadian Pacific received regulatory approval to purchase a one-third interest in Dart Containerline Company Limited, which provides container shipping service between the U.S. east coast and Western Europe. This service involves the operation of four container vessels, one owned by each participant and the fourth owned jointly.

Difficult market conditions are expected to continue. The combination of the recession in Europe and North America, excess capacity and recent action by U.S. east coast lines to establish intermodal through-rates are likely to keep both prices and volumes down.

CP Trucks

Canadian Pacific Express & Transport Ltd.

Net income of CP Express & Transport amounted to $1.3 million in 1982. This compared with a profit of $4.9 million in 1981 and a loss of $2.1 million in 1980.

During 1982, all divisions had to cope with the adverse effects of the recession on revenue levels and profit margins. Traffic volumes were down 15%-20% and competition for the available traffic had a depressing effect on rates. In addition, CP Transport operations were shut down in Ontario for almost two months late in the year due to a strike by the Teamsters' union. While the strike was expensive, it was ended on the basis of a reasonable wage settlement. The turnaround from a loss in 1980 to a profit in 1981 was attributable mainly to the effects on the CP Transport division of better operating efficiency and improved marketing efforts.

In 1983, efforts will be directed toward greater market penetration, and expansion of the specialized transport services and the small and medium size parcel businesses.

CanPac International Freight Services Inc.

CanPac IFS earned $218,000 in 1982, compared with $550,000 in 1981 and $574,000 in 1980. In 1982, there were decreases in income from every division, but particularly the brokerage division.

Soo Line Railroad Company

CP Limited's 55.7% share of the income of Soo Line Railroad fell to $13.6 million from $23.0 million in 1981 and $23.1 million in 1980.

Competitive conditions have intensified for the Soo Line since 1980 due mainly to the recession, the effects of deregulation of U.S. railroads under the Staggers Act of 1980 and railroad mergers.

Total revenues of the Soo Line in 1982 amounted to $367.8 million, compared with $414.3 million in 1981 and $380.1 million in 1980. Despite some increase in freight rates, revenues declined in 1982 because of a 17% drop in freight traffic volume that involved most commodities. Revenues in 1981 were above those of 1980, as increased freight rates more than compensated for a decrease of 7% in traffic volume.

Expenses were $343.3 million in 1982, $373.0 million in 1981 and $338.6 million in 1980. The reduction in 1982 reflected reduced traffic levels and a lower maintenance program, partially offset by escalation of costs; labour rates rose by approximately 13% and rates for equipment rentals increased considerably. The expense increase in 1981 over 1980 was chiefly from higher fuel and material prices, increased labour rates and expanded track maintenance programs, all of which more than outweighed reductions due to lower volume and cost control measures.

CP Telecommunications

Net income from CP Limited's share in the CNCP Telecommunications partnership amounted to $5.1 million in 1982, compared with $4.9 million in 1981 and $5.0 million in 1980.

The Company's revenues from telecommunications were $152.4 million in 1982, $136.9 million in 1981 and $123.1 million in 1980. Revenue growth over the three-year period was provided mainly by gains in telex and leased services. Whereas the increase in 1981 was due largely to higher volume, in 1982 the additional revenue came principally from rate increases.

Expenses were $147.3 million in 1982, up from $132.0 million in 1981 and $118.1 million in 1980. Escalation of costs, particularly for wages and benefits and for leased facilities, accounted for the rise in expenses over the period.

Miscellaneous Income

Miscellaneous income of $3.4 million in 1982 was down from $17.0 million in 1981 and $16.9 million in 1980.

Of the decrease in 1982, about half represented the receipt in 1981 of CP Limited's share of Government branch line payments to the Northern Alberta Railways Company for the years 1967 to 1980; CP Limited sold its 50% interest in the NAR in 1980. The remainder of the income reduction in 1982 was attributable largely to changes in accounting as between CP Rail and Miscellaneous income, related to the new accounting rules for Canadian railways.

Canadian Pacific Enterprises Limited

Net income from the Company's 70.3% interest in Canadian Pacific Enterprises Limited amounted to $106.0 million in 1982. This was a decline of $181.0 million from 1981 and of $256.9 million from 1980.

Enterprises reported total revenues of $8,495 million in 1982, $8,559 million in 1981 and $6,659 million in 1980. Total expenses amounted to $8,296 million in 1982, up from $7,934 million in 1981 and $5,919 million in 1980.

The following analysis should be read in conjunction with the statement giving details of Enterprises' net income on pages 24 and 25.

Oil and Gas

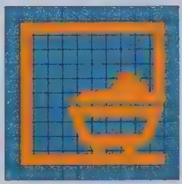
Enterprises' income from PanCanadian Petroleum, 87.1% owned, amounted to $200.9 million in 1982, compared with $177.4 million in 1981 and $210.2 million in 1980.

Revenues of PanCanadian in 1982 increased $151 million over 1981 due to higher prices for oil and natural gas and increased production of natural gas and natural gas liquids. The revenue increase in 1981 was $67 million, primarily the result of higher prices.

Expenses of PanCanadian increased $124 million in 1982, due largely to costs arising from an increase in the number of producing properties and to higher mineral taxes. The provision for income and revenue taxes rose 42% due not only to higher pre-tax income, but also to an increase in the Petroleum and Gas Revenue Tax and the inclusion of the Incremental Oil Revenue Tax for five months in 1982. In 1981, expenses were $105 million higher because of major tax changes under the National Energy Program, as well as general cost inflation.

Due to deterioration in the world oil market during 1982, the governments of Canada and the producing provinces made certain revisions to the energy pricing and taxation agreements finalized late in 1981. The Alberta Government reduced its royalty rates for both oil and gas and introduced incentive programs. The Federal Government reduced the effective rate of the Petroleum and Gas Revenue Tax to 11% from 12% and suspended the Incremental Oil Revenue Tax, both for one year beginning June 1, 1982, and allowed the price for oil discovered between 1974 and 1980 to rise to 75% of the world price, effective July 1, 1982.

Mines and Minerals



Enterprises' net loss from Cominco, representing a 54.3% interest, amounted to $23.5 million in 1982. This contrasted with profits of $35.6 million in 1981 and $86.4 million in 1980.

Cominco's revenues amounted to $1,277 million in 1982, a decrease of $187 million from 1981. The decline reflected mainly lower prices for most products, and reduced sales volumes of refined zinc and fertilizers. Revenues in 1981 decreased $17 million from 1980, due mainly to reduced prices for silver, lead and gold as well as lower sales volumes of silver, gold, refined lead and electric power.

Expenses of Cominco were $1,311 million in 1982, down $69 million from 1981. Production costs were lower in 1982, in line with reduced production volumes, partially offset by cost increases, primarily for energy and labour. Interest expenses were up substantially, due to borrowings to finance expansion and modernization programs. Expenses in 1981 were $83 million above 1980, due to higher production and distribution costs and interest expenses.

Fording Coal, owned 60% by Enterprises and 40% by Cominco, earned $12.1 million in 1982.

This compared with a loss of $2.2 million in 1981 and net income of $14.7 million in 1980. In 1982, there was a significant increase in the selling price of coal which more than compensated for a reduction in volume. The loss in 1981 was attributable to a lower yield of clean coal and increased operating costs which more than offset the benefits of improved selling prices and greater volume.

Net income from Steep Rock Iron Mines, 79.4% owned by Enterprises, was $1.4 million in 1982, down from $2.8 million in 1981 and $2.2 million in 1980. Steep Rock's results in 1982 included non-recurring charges of $2.0 million pertaining to obligations under a long term natural gas contract and to a write-off of certain development costs.

Forest Products

CIP Inc. incurred a loss of $101.8 million in 1982. In 1981, CIP's loss was $19.7 million for the three months during which it was owned by Enterprises. Revenues of CIP amounted to $1,107 million in 1982; expenses totalled $1,213 million. CIP's sales volumes and prices were depressed due largely to weak markets. Sales volumes were additionally affected by lengthy strikes at CIP's container plants and by a nine-month shutdown for rebuild of two paper machines. Interest costs on the borrowings associated with CIP's acquisition were at a high level.

Income of Enterprises from its 54.3% interest in Great Lakes Forest Products amounted to $11.6 million in 1982, compared with $41.8 million in 1981 and $43.9 million in 1980. During 1982, Great Lakes changed its accounting for investment tax credits to conform with the practice of most other Canadian forest product companies; this had the effect of increasing Enterprises' income from Great Lakes by $9.9 million in 1982. Revenues of Great Lakes amounted to $442 million in 1982, down $136 million from 1981 because of weak markets, which resulted in lower shipments and price erosion for all of the company's products. In 1981 revenues increased $33 million over 1980, due mainly to higher product prices.

Great Lakes' expenses of $421 million in 1982 were down $80 million from 1981, the result of lower volumes, largely offset by cost escalation, mainly for labour, energy and transportation. General cost inflation was the main reason for the expense increase of $36 million in 1981.

Pacific Forest Products incurred losses of $7.1 million in 1982 and $6.0 million in 1981, which contrasted with a profit of $1.3 million in 1980. Results for the years 1982 and 1980 included net gains on sale of land of $9.2 million and $1.2 million, respectively. The decline in results from operations over the period reflected poor markets for logs and lumber.

Iron and Steel

Enterprises' 61.2% share of the loss reported by Algoma Steel amounted to $31.5 million in 1982. This contrasted with profits of $87.7 million in 1981 and $55.3 million in 1980. Total revenues of Algoma Steel, including its share of the earnings of AMCA International Limited, amounted to $902 million in 1982. This was a decline of $573 million from 1981, due chiefly to lower shipments but also to a less favourable product mix; in addition, selling prices were at depressed levels. Revenues in 1981 were up $295 million over 1980 because of strong demand for steel products.

Algoma's expenses of $942 million in 1982 decreased $368 million from 1981, reflecting the reduction in volumes, partially offset by inflationary increases in labour costs, increased interest expense and the adverse effects on costs of low operating levels. Expenses rose $239 million in 1981, due mainly to the effects of inflation.

In addition to its interest in Algoma's share of the income of AMCA International, Enterprises holds a direct interest, which contributed income of $5.8 million in 1982. This amount was virtually unchanged from 1981 and 1980, owing to the effect of unrealized exchange differences on translation of AMCA's accounts into Canadian dollars.

Real Estate

Income from Marathon Realty Company Limited amounted to $26.2 million in 1982, up $2.2 million over 1981 and $5.2 million over 1980.

Total revenues of Marathon were $24 million higher than in 1981. The increase was due almost equally to rentals from new buildings and to

increased rentals from existing buildings; revenue from property sales was also higher. Revenues in 1981 were up $33 million over 1980. The acquisition in July 1980 of the real estate interests of Norin Corp. accounted for about one-half of the increase, and the balance was attributable mostly to increased rentals from existing buildings and from the operation of new buildings.

Marathon's 1982 expenses were $22 million higher than in 1981. About half the increase was in building operating expenses and the other half was due largely to increased interest expense. Of the expense increase of $30 million in 1981, about half was due to higher operating expenses and the addition of the Norin properties and the remainder to higher interest costs and increased income taxes.

Agriproducts

Income from Maple Leaf Mills Limited amounted to $12.2 million, compared with $14.6 million in 1981 and $6.3 million in 1980. Maple Leaf was acquired by Enterprises in July 1980. The reduction in 1982 income was due primarily to reduced volumes in the flour division.

CanPac AgriProducts Limited, based in the United States and engaged in rendering and fruit processing, earned $1.6 million in 1982, $4.5 million in 1981 and $3.2 million in 1980. The reduction in 1982 income was attributable largely to the effects on the rendering division of weak tallow and protein prices and higher operating costs.

Other Businesses

CP Hotels earned $8.4 million in 1982, compared with $12.1 million in 1981 and $6.9 million in 1980. The decrease in 1982 was caused mainly by lower business volume which affected both domestic and international hotel operations. In 1981, income was up over 1980 due largely to higher room rates and increased food prices.

Financial

Chateau Insurance Company, owned 99.98% by Enterprises, suffered losses of $2.0 million in 1982, $10.3 million in 1981 and $0.9 million in 1980. The improvement in 1982 was due chiefly to the phasing out of the lines of business responsible for the heaviest losses.

Net income from Corporate activities of Enterprises amounted to $18.3 million in 1982, down from $22.2 million in 1981 and $29.6 million in 1980. Included in income for 1982 were net gains totalling $19 million on sales of portfolio investments; in 1980 there was a net gain of $13 million on such sales. Fluctuations in cash levels over the three-year period accounted for a decrease in interest income in 1982, and an increase in 1981.

Effects of Changing Prices and Inflation

Canada has experienced double-digit inflation for the third consecutive year. Although inflation is expected to decelerate, most economic forecasts predict that it will continue at rates that are high by historical standards. Because not all prices and costs move at the same rate during a period of generally rising prices, inflation can have damaging effects on profitability.

The Company has very little control over the prices of many of its products and services. For example, the statutory rates for shipping grain by rail, regulated prices of air transportation, telecommunications and oil and gas and long term contracts for coal make it impossible to rely only on rising prices to cover escalating costs. In the case of bulk shipping and many Enterprises' subsidiaries, world supply and demand conditions determine price levels. In 1982, many costs continued to escalate while almost concurrently there were sharp declines in revenues because of weakening prices. As a result, extensive measures to cut costs and improve productivity were implemented.

Inflation can seriously distort the information contained in financial statements prepared on the basis of historical cost accounting. The major distortion is that income is exaggerated because depreciation costs are based on historical rather than replacement or current costs. In December, the Canadian Institute of Chartered Accountants published recommendations outlining the supplementary information to be provided on the effects of changing a company's financial statements from the conventional historical cost basis to a current cost basis. The recommendations became effective for fiscal years beginning on or after January 1, 1983.

Generally, the net effect of the recommended procedures is a lowering of income. This follows from the use of the current cost approach in two important areas: first, the increase in depreciation costs to reflect the higher cost of replacing aging or obsolete assets and, second, the higher costs of production resulting from additions to inventories when prices are rising. In addition, there is an attempt to determine whether a company has gained or lost by its management of cash and debt. It is generally recognized that inflation reduces the real value of cash. On the other hand, the real burden of debt is reduced by inflation although this latter phenomenon is less true if, as in recent years, interest rates increase along with prices in general. The Canadian Institute proposals thus provide for a "financing adjustment" to show the extent to which the existing debt/equity proportion of a corporation shields the shareholders' equity from the impact of changing prices.

It is generally recognized that much experimentation and discussion are still necessary before a consensus is reached as to what constitutes the best accounting methods to deal with the problems of inflation. While the Company supports all endeavors in this direction, an acceptable accounting system is no substitute for substantially lower inflation. In this regard, the Company supports governmental programs and policies designed to reduce inflation; to the extent that these are successfully implemented, the economic recovery expected in 1983 will not be dissipated in yet another surge of inflation.

1982 Financial Statements

Canadian Pacific Limited

General

Basic financial reporting and consolidation policy

Canadian Pacific Limited (CP Limited) carries on transportation and related enterprises directly and through subsidiaries, in Canada and internationally. CP Limited also holds 107,941,718 common shares (100,000,000 shares at December 31, 1981 and 1980) of Canadian Pacific Enterprises Limited (Enterprises) representing 70.33% of its common shares at December 31, 1982 (70.74% at December 31, 1981 and 71.09% at December 31, 1980). Enterprises, through various subsidiary companies, carries on development of extensive natural resource properties and engages in manufacturing and other activities in Canada and abroad.

The financial statements of all subsidiary companies except those of two finance companies, which are accounted for on the equity basis, are included in the consolidated financial statements of CP Limited and have been prepared in accordance with accounting principles generally accepted in Canada. The major differences between Canadian and United States generally accepted accounting principles, insofar as they apply to the Company, are described under Supplementary Data. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

The statement of consolidated income on page 19 is designed to present clearly CP Limited's income from its transportation related activities and from its holding in Enterprises. Income from transportation is segregated between the major functions – rail, air, ships, trucks, Soo Line Railroad Company and telecommunications. A breakdown of income by function for the operations carried on by Enterprises is presented on page 24. The significant accounting policies of each group are described below, and should be read in conjunction with the consolidated financial statements and the notes thereto.

Foreign exchange

Current assets and current liabilities have been translated from foreign currencies into Canadian dollars at current rates. Fixed assets, related depreciation, depletion and amortization and long term debt (excluding the current portion) have been translated at historical rates. Revenues and expenses (except depreciation, depletion and amortization which are translated at historical rates) have been translated at average rates in effect during the year. Gains or losses on exchange are included in income.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Transportation

Income reporting by function
CP Limited operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, comprising mainly a 50% share of the CNCP Telecommunications partnership, are departments of CP Limited. CP Air (Canadian Pacific Air Lines, Limited), CP Ships (Canadian Pacific Steamships, Limited and Canadian Pacific (Bermuda) Limited) and CP Trucks (Canadian Pacific Express & Transport Ltd. and CanPac International Freight Services Inc.) are operated through subsidiary companies in which the Company owns 100% of the common shares; the Soo Line Railroad Company is 55.69% owned.

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Services provided by CP Rail to other profit centres yielded revenues in 1982 of $233,000,000 (1981 – $248,000,000; 1980 – $198,000,000). There were no other significant inter-company services provided by the transportation group. CP Limited's rent for leased railways is assigned to CP Rail. Other interest paid by CP Limited is allocated to CP Rail, CP Telecommunications and Miscellaneous as appropriate. Interest paid by other transportation companies is charged to their respective profit centres.

CP Limited's income taxes are allocated to CP Rail, CP Telecommunications and Miscellaneous on the basis of their accounting incomes as adjusted for non-taxable items. Taxes of other transportation companies are charged to their respective profit centres.

Properties
Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following which are charged to expenses:

1. Labour costs relating to track structure replacements.
2. Renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for railways subject to regulation by the Canadian Transport Commission.

Depreciation
Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the Canadian Transport Commission and by the Interstate Commerce Commission for the Soo Line Railroad Company; for telecommunications properties, the rates used are as authorized by the Canadian Radio-television and Telecommunications Commission. When railway and telecommunications depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of properties are as follows:

	Years
Railway	
– road diesel locomotives	20
– freight cars	30
– ties	29
– rails	50
Ships	18 to 25
Aircraft	14
Telecommunications equipment	6 to 19
Trucks	5 to 12

Canadian Pacific Enterprises Limited

Income reporting by function

The financial statements of all subsidiary companies are consolidated in the financial statements of Enterprises except those of two finance companies, which are accounted for on the equity basis. The classes of business are based upon the major activities of significant subsidiaries, and the principal companies included in each class are as follows:

Percentage Ownership by Enterprises December 31	*1982*	*1981*	*1980*
Oil and Gas			
PanCanadian Petroleum Limited	87.08%	87.08%	87.08%
Mines and Minerals			
Cominco Ltd.	54.34	54.35	53.64
Fording Coal Limited			
Enterprises	60	60	60
Cominco Ltd.	40	40	40
Steep Rock Iron Mines Limited	79.44	77.50	77.28
Forest Products			
CIP Inc.	100	100	—
Great Lakes Forest Products Limited	54.28	54.28	54.28
Pacific Forest Products Limited	100	100	100
Commandant Properties, Limited	100	100	100
Iron and Steel			
The Algoma Steel Corporation, Limited	61.15	57.63	56.77
AMCA International Limited			
Enterprises	16.38	9.37	9.38
The Algoma Steel Corporation, Limited	34.94	42.74	42.80
Real Estate			
Marathon Realty Company Limited	100	100	100
Agriproducts			
Maple Leaf Mills Limited	100	100	100
CanPac AgriProducts Limited	100	100	100
Rothsay Concentrates Co. Limited*	—	—	100
Other Businesses			
Canadian Pacific Hotels Limited	100	100	100
Syracuse China Corporation	100	100	100
Processed Minerals Incorporated	100	100	100
Financial			
Canadian Pacific Enterprises Limited – Corporate activities			
Canadian Pacific Securities Limited	100	100	100
Chateau Insurance Company	99.98	99.98	99.96
Canadian Pacific Enterprises (International) B.V.	100	100	100
Canadian Pacific Enterprises (U.S.) Inc.	100	100	100
Canadian Pacific Enterprises (Finance) N.V.	100	100	100

*This company was merged with Maple Leaf Mills Limited effective January 6, 1981.

The Algoma Steel Corporation, Limited supplies structural steel and plate to AMCA International Limited. In reporting the results of Iron and Steel operations in the analysis of Enterprises' operations on page 24, the following amounts have been eliminated from sales and operating revenue and from expenses: 1982 – $35,900,000; 1981 – $51,010,000; 1980 – $44,380,000. Inter-company interest charges amounting to $72,310,000 in 1982, $42,561,000 in 1981 and $25,243,000 in 1980, have not been eliminated in the analysis of Enterprises' operations in order to present fairly the results by activity. Enterprises' net income is not affected by this practice. However, inter-company interest charges have been eliminated from Enterprises' revenues and expenses in the CP Limited Statement of Consolidated Income on page 19. There are no other significant inter-company charges within the Enterprises group of companies.

Inventories

Products, work in progress and raw materials of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Supplies are valued at cost less appropriate allowances for obsolescence.

Finished products of Iron and Steel and work in progress related to steel making operations are valued at the lower of cost and net realizable value. Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to Forest Products and Agriproducts) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for oil and gas properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized on a world-wide cost centre basis. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Depreciation on plant and equipment is provided at rates which will amortize original costs over their estimated useful lives. The diminishing balance method is applied to all plant and equipment, except for the Empress and Syncrude facilities, which are depreciated on the straight-line basis.

Interest on funds borrowed to finance major projects is capitalized during the construction period.

Accounting for mining properties

Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation, together with the cost of certain investments in mineral companies, are amortized against earnings by charges for depletion. Abandoned properties are written off in the year of abandonment. Depletion on operating mines is provided on a unit of production or on a time basis based on the mineral reserves position.

Interest on specific borrowings to finance major expenditures for fixed assets is capitalized during the construction period.

Accounting for iron and steel properties

Depreciation of manufacturing plant and equipment is provided on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Mining equipment and mine development are either depreciated on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives or are amortized on a unit of production basis over the estimated recoverable raw material reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties and the construction of new manufacturing facilities is capitalized during the period of construction and initial development.

Accounting for real estate properties

All operating and carrying costs net of rental revenues are capitalized for all income producing properties until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time.

Land under development and held for development is carried at the lower of cost and net realizable value. Cost includes carrying costs, principally real estate taxes and interest. Buildings and construction in progress are carried at cost including real estate taxes, interest and initial leasing costs.

The sinking fund method of providing depreciation is used for the majority of buildings. This method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Accounting for other properties

Depreciation and amortization of other properties are charged to earnings, either on a straight-line or on a unit of production basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under Forest Products and Other Businesses is capitalized during the construction period.

To the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1982 and 1981 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982 in accordance with generally accepted accounting principles in Canada which, except for the change with which we concur, required to be made by regulation in accounting for certain rail revenues and expenses in 1982 as described in Notes 1 and 10 to the financial statements, have been consistently applied.

Price Waterhouse,
Chartered Accountants,
Montreal, Quebec,
March 11, 1983.

Statement of Consolidated Income

For the Year ended December 31	1982	1981	1980
		(in thousands)	
CP Rail (Note 1)			
Revenues	**$ 2,147,074**	$ 2,070,977	$ 1,773,593
Expenses including income taxes	**2,029,201**	1,943,809	1,651,998
Net income	**117,873**	127,168	121,595
CP Air			
Revenues	**880,734**	827,572	698,251
Expenses including income taxes	**915,426**	845,067	691,412
	(34,692)	(17,495)	6,839
Preference dividend	**4,522**	5,286	3,986
Net income	**(39,214)**	(22,781)	2,853
CP Ships			
Revenues	**269,939**	336,203	338,775
Expenses including income taxes	**289,974**	292,421	286,415
Net income	**(20,035)**	43,782	52,360
CP Trucks			
Revenues	**291,762**	291,546	243,240
Expenses including income taxes	**290,211**	286,080	244,767
Net income	**1,551**	5,466	(1,527)
Soo Line Railroad Company			
Revenues	**367,761**	414,335	380,067
Expenses including income taxes	**343,270**	373,021	338,631
	24,491	41,314	41,436
Minority interest	**10,852**	18,306	18,360
Net income	**13,639**	23,008	23,076
CP Telecommunications			
Revenues	**152,437**	136,898	123,056
Expenses including income taxes	**147,334**	131,962	118,101
Net income	**5,103**	4,936	4,955
Miscellaneous			
Net income	**3,377**	16,993	16,898
Transportation and Miscellaneous			
Net income	**82,294**	198,572	220,210
Canadian Pacific Enterprises Limited (Note 2)			
Revenues	**8,494,663**	8,558,759	6,659,250
Expenses including income taxes	**8,295,839**	7,934,283	5,918,725
	198,824	624,476	740,525
Minority interest	**92,824**	337,469	377,578
Net income	**106,000**	287,007	362,947
Net Income	**$ 188,294**	$ 485,579	$ 583,157
Earnings per Ordinary Share	**$ 2.60**	$ 6.75	$ 8.11

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31	**1982**	*1981*	*1980*
		(in thousands)	
Balance, January 1	**$ 3,194,666**	$ 2,845,438	$ 2,328,050
Net income	**188,294**	485,579	583,157
Gain (loss) arising from the increase in shareholders' equity of a subsidiary due to the issuance of common shares	**(2,302)**	1,583	72,215
	3,380,658	3,332,600	2,983,422
Commission and expenses relating to the issuance of common shares by a subsidiary company net of:			
Income tax 1982 – $1,462,000; 1980 – $4,970,000			
Minority interest 1982 – $474,000; 1980 – $1,375,000	**1,123**	—	3,381
Dividends			
7¼% Preferred shares	**1,109**	1,234	1,471
4% Preference stock	**535**	542	557
Ordinary stock (per share: 1982 – $1.65; 1981 – $1.90; 1980 – $1.85)	**118,243**	136,158	132,575
Total dividends	**119,887**	137,934	134,603
Balance, December 31	**$ 3,259,648**	$ 3,194,666	$ 2,845,438

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	**1982**	*1981*	*1980*
		(in thousands)	
Source of Funds			
Net income	**$ 188,294**	$ 485,579	$ 583,157
Depreciation, depletion and amortization	**684,641**	559,772	478,305
Deferred income taxes	**26,269**	344,256	250,814
Minority interest in income of subsidiaries	**108,198**	361,061	399,924
Funds from operations	**1,007,402**	1,750,668	1,712,200
Sales of investments	**73,035**	15,301	118,238
Issuance of long term debt	**1,541,702**	2,071,856	447,764
Issuance of shares by subsidiaries	**174,669**	53,665	297,467
Proceeds from disposal of properties	**105,792**	99,136	90,364
Working capital of subsidiaries acquired and consolidated	**115,128**	257,403	289,016
Sundries, net	**105,848**	13,521	14,577
Decrease (increase) in working capital	**384,296**	10,677	(353,337)
	$ 3,507,872	$ 4,272,227	$ 2,616,289
Application of Funds			
Additions to properties	**$ 1,966,710**	$ 2,322,727	$ 1,585,033
Additions to investments	**74,178**	101,338	18,375
Investment in subsidiaries acquired and consolidated	**399,315**	1,112,665	361,852
Reduction in long term debt	**787,431**	407,058	348,629
Reduction of minority shareholders' interest in subsidiaries	**16,871**	13,314	8,559
Preferred shares purchased for cancellation	**1,978**	2,597	1,967
Dividends	**119,887**	137,934	134,603
Dividends paid minority shareholders of subsidiaries	**141,502**	174,594	157,271
	$ 3,507,872	$ 4,272,227	$ 2,616,289

Changes in Consolidated Working Capital

Current Assets			
Cash and temporary investments	**$ (450,096)**	$ (391,993)	$ 144,371
Accounts receivable	**(265,609)**	387,395	189,472
Inventories	**115,605**	481,932	445,079
	(600,100)	477,334	778,922
Current Liabilities			
Bank loans	**(44,731)**	297,441	21,061
Accounts payable and accrued liabilities	**(148,464)**	233,340	352,252
Notes and accrued interest payable	**(62,194)**	62,711	(75,969)
Income and other taxes payable	**(33,548)**	(77,755)	10,784
Dividends payable	**(44,421)**	(808)	3,516
Long term debt maturing within one year	**117,554**	(26,918)	113,941
	(215,804)	488,011	425,585
Decrease (increase) in working capital	**$ 384,296**	$ 10,677	$ (353,337)

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31

Assets	1982	1981
	(in thousands)	
Current Assets		
Cash and temporary investments, at cost (approximates market)	$ 516,916	$ 967,012
Accounts receivable	1,575,518	1,841,127
Rail materials and supplies, at cost or less	248,179	231,969
Other inventories (Note 7)	1,899,613	1,800,218
	4,240,226	4,840,326
Insurance Fund		
(approximate market $3,872,000; 1981 – $3,420,000)	4,000	4,000
Investments (Note 8)	520,910	535,249
Properties, at cost (Note 9)		
CP Rail	3,754,002	3,515,271
CP Air	1,144,999	960,377
CP Ships	758,956	689,285
CP Trucks	171,977	145,623
Soo Line Railroad Company	501,075	485,883
CP Telecommunications	300,077	271,140
Miscellaneous	28,733	27,686
Canadian Pacific Enterprises Limited	10,385,523	9,073,930
	17,045,342	15,169,195
Less: Accumulated depreciation, depletion and amortization	5,044,555	4,534,650
	12,000,787	10,634,545
Other Assets and Deferred Charges	507,111	316,065
	$ 17,273,034	$ 16,330,185

Liabilities	1982	1981
	(in thousands)	
Current Liabilities		
Bank loans	$ **346,175**	$ 390,906
Accounts payable and accrued liabilities	**1,951,671**	2,100,135
Notes and accrued interest payable	**339,239**	401,433
Income and other taxes payable	**147,927**	181,475
Dividends payable	**42,848**	87,269
Long term debt maturing within one year	**403,377**	285,823
	3,231,237	3,447,041
Deferred Liabilities (Note 10)	**276,310**	166,086
Insurance Reserve	**4,000**	4,000
Long Term Debt (Note 11)	**5,135,314**	4,361,814
Perpetual 4% Consolidated Debenture Stock (Note 12)	**292,549**	292,549
Minority Shareholders' Interest in Subsidiary Companies (Note 13)	**2,586,591**	2,477,342
Deferred Income Taxes	**1,756,052**	1,651,984
Shareholders' Equity		
Preferred shares (Note 14)		
Authorized – 21,804,849 shares of a par value of $10 each		
Issued – 1,423,061 7¼% Cumulative Redeemable Series A shares (1981 – 1,659,588)	**14,231**	16,596
Preference stock – 4% non-cumulative (Note 15)		
Authorized – an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
Issued – £853,923 in amounts of £1 and multiples thereof	**4,156**	4,156
– in amounts of $3 and multiples thereof	**10,714**	11,074
	14,870	15,230
Ordinary stock		
Authorized – 100,000,000 shares of a par value of $5 each		
Issued – 71,662,280 shares	**358,311**	358,311
Premium on stock	**115,253**	114,717
Other paid-in surplus	**228,668**	229,849
Retained income	**3,259,648**	3,194,666
	3,990,981	3,929,369
	$ 17,273,034	$ 16,330,185

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Approved on behalf of the Board:
F.S. Burbidge, Director
W.W. Stinson, Director

1. CP Rail Results

In accordance with a new Uniform Classification of Accounts (UCA) prescribed for railways subject to regulation by the Canadian Transport Commission, certain revenues from inter-railway shipments are being recognized earlier than previously and certain expenses related to in-transit movements are being recognized in later periods than previously. The result of this change in 1982 is a one-time increase in CP Rail income before taxes of $19,628,000. Also, in accordance with the new UCA, 1982 expenses have been reduced by some $9,391,000 as a result of the capitalization of certain types of expenditures which in prior years were charged to income. Other related changes in accounting resulted in an increase in CP Rail income before taxes of $7,554,000, with a corresponding decrease in Miscellaneous income before taxes.

2. Canadian Pacific Enterprises Limited – Net Income

	1982	*1981*	*1980*
		(in thousands)	
Oil and Gas			
Gross operating revenue	**$ 792,599**	$ 641,922	$ 574,687
Expenses including income taxes	**561,933**	438,185	333,320
	230,666	203,737	241,367
Interest of outside shareholders	**29,802**	26,323	31,185
Net income	**200,864**	177,414	210,182
Mines and Minerals			
Gross operating revenue	**1,554,334**	1,725,435	1,698,480
Expenses including income taxes	**1,577,401**	1,638,049	1,502,288
	(23,067)	87,386	196,192
Interest of outside shareholders	**(9,869)**	49,724	97,554
Net income	**(13,198)**	37,662	98,638
Forest Products			
Sales and operating revenue	**1,654,128**	1,026,614	674,914
Expenses including income taxes	**1,746,788**	975,888	593,311
	(92,660)	50,726	81,603
Interest of outside shareholders	**4,684**	34,499	36,034
Net income	**(97,344)**	16,227	45,569
Iron and Steel			
Sales and operating revenue	**2,680,471**	3,312,389	2,382,210
Expenses including income taxes	**2,684,669**	3,111,570	2,237,273
	(4,198)	200,819	144,937
Interest of outside shareholders	**21,519**	107,233	83,731
Net income	**(25,717)**	93,586	61,206
Real Estate			
Gross rentals and other income	**251,065**	226,989	193,988
Expenses including income taxes	**224,498**	202,688	172,809
	26,567	24,301	21,179
Interest of outside shareholders	**355**	274	188
Net income	**26,212**	24,027	20,991

Agriproducts			
Gross operating revenue	**1,137,473**	1,165,233	715,587
Expenses including income taxes	**1,118,664**	1,143,472	705,337
	18,809	21,761	10,250
Interest of outside shareholders	**2,189**	1,823	576
Net income	**16,620**	19,938	9,674
Other Businesses			
Gross operating revenue	**327,360**	334,538	302,366
Expenses including income taxes	**312,092**	317,672	290,564
Net income	**15,268**	16,866	11,802
Financial			
Gross operating revenue	**169,543**	168,200	142,261
Expenses including income taxes	**142,104**	149,320	109,066
Net income	**27,439**	18,880	33,195
Canadian Pacific Enterprises Limited – Net income	**150,144**	404,600	491,257
Minority interest	**44,144**	117,593	128,310
Net Income	**$ 106,000**	$ 287,007	$ 362,947

3. Expenses Including Income Taxes	1982	1981	1980
	(in thousands)		
CP Rail			
Maintenance	**$ 607,476**	$ 606,703	$ 520,440
Transportation	**692,347**	643,983	524,768
General and administrative	**471,499**	443,647	380,130
Depreciation	**106,640**	98,280	87,266
Fixed charges	**38,800**	27,800	20,700
Income taxes	**112,439**	123,396	118,694
	$ 2,029,201	$ 1,943,809	$ 1,651,998
CP Air			
Maintenance	**$ 76,330**	$ 75,824	$ 69,473
Other operating	**523,003**	507,681	405,823
Selling, general and administrative	**210,981**	180,125	148,037
Depreciation and amortization	**75,902**	53,503	38,899
Interest	**59,138**	39,689	24,886
Income taxes	**(29,928)**	(11,755)	4,294
	$ 915,426	$ 845,067	$ 691,412
CP Ships			
Maintenance	**$ 23,631**	$ 26,934	$ 28,824
Other operating	**169,291**	178,791	181,965
Selling, general and administrative	**40,961**	38,284	34,634
Depreciation and amortization	**38,579**	31,197	26,417
Interest	**17,433**	17,800	13,136
Income taxes	**79**	(585)	1,439
	$ 289,974	$ 292,421	$ 286,415
CP Trucks			
Maintenance	**$ 22,610**	$ 25,856	$ 23,661
Other operating	**204,594**	195,378	165,080
Selling, general and administrative	**48,709**	46,560	44,258
Depreciation and amortization	**10,975**	10,046	9,167
Interest	**1,963**	2,297	3,508
Income taxes	**1,360**	5,943	(907)
	$ 290,211	$ 286,080	$ 244,767
Soo Line Railroad Company			
Maintenance	**$ 107,070**	$ 125,530	$ 116,989
Traffic	**9,343**	7,952	7,069
Other operating	**177,042**	174,138	159,041
General and administrative	**14,539**	18,755	14,159
Depreciation and amortization	**10,885**	10,606	9,915
Fixed charges	**13,690**	14,295	13,573
Income taxes	**10,701**	21,745	17,885
	$ 343,270	$ 373,021	$ 338,631

CP Telecommunications			
Maintenance	**$ 74,645**	$ 64,162	$ 58,418
Other operating	**9,212**	8,862	8,271
Selling, general and administrative	**29,600**	29,493	24,800
Depreciation and amortization	**20,773**	17,128	13,362
Interest	**7,686**	7,012	7,988
Income taxes	**5,418**	5,305	5,262
	$ 147,334	$ 131,962	$ 118,101
Miscellaneous			
Operating, general and administrative	**$ 36,245**	$ 19,857	$ 15,208
Depreciation	**1,079**	963	2,543
Fixed charges	**69,852**	70,125	62,289
Income taxes	**(12,521)**	(3,449)	(6,335)
	$ 94,655	$ 87,496	$ 73,705
Canadian Pacific Enterprises Limited			
Operating expenses and cost of goods sold	**$ 6,197,324**	$ 5,763,680	$ 4,320,866
Distribution, selling, general and administrative	**988,131**	977,259	638,556
Depreciation, depletion and amortization	**419,808**	338,049	290,736
Interest	**562,247**	393,808	250,726
Income taxes	**128,329**	461,487	417,841
	$ 8,295,839	$ 7,934,283	$ 5,918,725

4. Canadian Pacific Enterprises Limited – Expenses Including Income Taxes

	1982	1981	1980
		(in thousands)	
Oil and Gas			
Cost of goods sold	$ **169,522**	$ 134,702	$ 107,030
Selling, general and administrative	**27,789**	20,817	15,967
Depreciation, depletion and amortization	**88,771**	72,428	65,380
Interest	**22,454**	32,174	25,373
Income taxes	**253,397**	178,064	119,570
	561,933	438,185	333,320
Mines and Minerals			
Cost of goods sold	**1,103,371**	1,095,129	990,074
Distribution, selling, general and administrative	**298,029**	319,417	257,028
Depreciation, depletion and amortization	**101,795**	98,415	84,966
Interest	**101,959**	72,127	36,334
Income taxes	**(27,753)**	52,961	133,886
	1,577,401	1,638,049	1,502,288
Forest Products			
Cost of goods sold	**1,455,813**	789,206	461,155
Selling, general and administrative	**86,439**	30,245	14,250
Depreciation, depletion and amortization	**93,034**	50,941	40,788
Interest	**175,852**	68,295	14,221
Income taxes	**(64,350)**	37,201	62,897
	1,746,788	975,888	593,311
Iron and Steel			
Cost of goods sold	**2,197,408**	2,464,783	1,839,811
Selling, general and administrative	**332,532**	335,349	202,896
Depreciation, depletion and amortization	**92,192**	77,543	68,916
Interest	**125,194**	87,570	55,870
Income taxes	**(62,657)**	146,325	69,780
	2,684,669	3,111,570	2,237,273
Real Estate			
Operating expenses and cost of sales	**128,801**	113,227	100,806
Depreciation	**12,135**	10,309	8,788
Interest	**61,108**	55,901	48,464
Income taxes	**22,454**	23,251	14,751
	224,498	202,688	172,809
Agriproducts			
Cost of goods sold	**912,885**	934,587	604,548
Selling, general and administrative	**164,079**	161,651	74,601
Depreciation and amortization	**17,291**	14,860	9,066
Interest	**18,178**	21,367	9,625
Income taxes	**6,231**	11,007	7,497
	1,118,664	1,143,472	705,337
Other Businesses			
Operating expenses and cost of goods sold	**229,524**	232,046	217,442
Selling, general and administrative	**47,014**	47,882	40,962
Depreciation and amortization	**14,349**	13,292	12,425
Interest	**9,935**	10,797	11,458
Income taxes	**11,270**	13,655	8,277
	312,092	317,672	290,564

Financial			
General and administrative	**32,249**	61,898	32,852
Depreciation and amortization	**241**	261	407
Interest	**119,877**	88,138	74,624
Income taxes	**(10,263)**	(977)	1,183
	142,104	149,320	109,066
	8,368,149	7,976,844	5,943,968
Inter-segment eliminations	**(72,310)**	(42,561)	(25,243)
	$ 8,295,839	$ 7,934,283	$ 5,918,725

5. Interest Expense	**1982**	*1981*	*1980*
		(in thousands)	
Long term debt and debenture stock	**$ 656,556**	$ 456,600	$ 293,665
Short term debt	**141,344**	123,916	84,512
	797,900	580,516	378,177
Less: Interest capitalized on funds borrowed to finance capital projects	**85,391**	58,233	22,975
	$ 712,509	$ 522,283	$ 355,202

6. Income Taxes	**1982**	*1981*	*1980*
		(in thousands)	
Current	**$ 189,608**	$ 257,831	$ 307,359
Deferred	**26,269**	344,256	250,814
	$ 215,877	$ 602,087	$ 558,173
The deferred income tax provision arose as follows:			
Capital cost allowances	**$ 125,925**	$ 264,499	$ 184,213
Exploration and development allowances	**51,813**	55,135	57,793
Loss carry forwards	**(150,733)**	—	—
Other	**(736)**	24,622	8,808
	$ 26,269	$ 344,256	$ 250,814
Income tax at the statutory tax rate may be reconciled to the effective tax as follows:			
Income tax at the statutory rate	**$ 248,851**	$ 704,938	$ 746,734
Depletion and resource allowances	**(66,841)**	(84,923)	(115,297)
Provincial mining and resource taxes	**4,627**	11,948	26,483
Royalties and mineral reserve tax	**22,695**	20,155	22,894
Petroleum and gas revenue taxes	**69,662**	36,136	—
Investment tax credits	**(25,243)**	(20,117)	(24,968)
Other	**(37,874)**	(66,050)	(97,673)
Income tax as charged to income	**$ 215,877**	$ 602,087	$ 558,173

7. Other Inventories

	1982	1981
	(in thousands)	
Raw materials	**$ 701,940**	$ 724,682
Work in progress	**312,980**	297,099
Finished goods	**594,789**	490,743
Stores and materials	**289,904**	287,694
	$1,899,613	$ 1,800,218

8. Investments

	1982		1981	
	(in thousands)			
Portfolio:	*Approximate market value*	*Cost*	*Approximate market value*	*Cost*
Common shares				
MICC Investments Limited	$ 3,644	**$ 2,293**	$ 4,049	$ 2,293
Norcen Energy Resources Limited	—	**—**	7,268	3,804
Rio Algom Limited	—	**—**	54,610	30,823
Union Carbide Canada Limited	19,395	**18,375**	28,060	18,375
Other	864	**1,796**	2,803	2,356
	23,903	**22,464**	96,790	57,651
Preferred shares	5,192	**7,488**	5,226	7,488
Bonds, debentures and notes	2,154	**2,116**	1,897	2,198
	$ 31,249	**32,068**	$ 103,913	67,337
Other:				
Accounted for on the equity basis:				
Koehring Finance Corporation		**59,748**		54,840
AMCA International Finance Company Limited		**10,000**		—
Aberfoyle Limited		**29,841**		32,330
Tahsis Company Ltd.		**73,347**		58,454
Tilden Iron Ore Partnership		**47,070**		43,506
Other		**67,350**		77,516
Accounted for on the cost basis:				
Panarctic Oils Ltd.		**42,832**		42,303
Tara Exploration and Development Company Limited		**26,903**		26,903
The Toronto Terminals Railway Company		**10,682**		10,682
Other		**121,069**		121,378
		488,842		467,912
		$ 520,910		$ 535,249

9. Properties and Accumulated Depreciation, Depletion and Amortization

	1982			1981
	(in thousands)			
	Cost	*Accumulated Depreciation, Depletion and Amortization*	*Net*	*Net*
CP Rail	$ 3,754,002	$ 1,569,155	**$ 2,184,847**	$ 1,997,139
CP Air	1,144,999	326,633	**818,366**	671,645
CP Ships	758,956	181,061	**577,895**	537,147
CP Trucks	171,977	67,958	**104,019**	89,030
Soo Line Railroad Company	501,075	140,032	**361,043**	354,198
CP Telecommunications	300,077	137,470	**162,607**	148,907
Miscellaneous	28,733	5,063	**23,670**	23,631
Canadian Pacific Enterprises Limited				
Oil and Gas	2,045,766	511,353	**1,534,413**	1,344,075
Mines and Minerals	2,327,356	734,555	**1,592,801**	1,438,038
Forest Products	2,174,290	413,285	**1,761,005**	1,561,303
Iron and Steel	2,066,823	706,179	**1,360,644**	1,081,827
Real Estate	1,191,711	58,883	**1,132,828**	1,019,053
Agriproducts	268,265	106,892	**161,373**	151,182
Other Businesses	309,595	85,427	**224,168**	216,573
Financial	1,717	609	**1,108**	797
Total Enterprises	10,385,523	2,617,183	**7,768,340**	6,812,848
	$ 17,045,342	$ 5,044,555	**$ 12,000,787**	$ 10,634,545

10. Deferred Liabilities

At December 31, 1982, deferred liabilities include approximately $16,600,000 received during 1982 from the Federal Government for the rehabilitation of certain Prairie branch lines and $18,100,000 from other bodies, mainly for relocations of railway lines. In accordance with the new UCA for Canadian railways, these amounts are being amortized to income on the same basis as the related fixed assets are being depreciated; formerly they would have been accounted for as additions to Other Paid-in Surplus.

11. Long Term Debt	1982	1981
	(in thousands)	
Canadian Pacific Limited		
5% Collateral Trust Bonds due 1983	**$ 31,536**	$ 31,536
8⅛% Collateral Trust Bonds due 1985	**27,750**	27,750
8½% Collateral Trust Bonds due 1989	**5,124**	5,188
9¾% Collateral Trust Bonds due 1989	**52,382**	52,999
8⅞% Collateral Trust Bonds due 1992	**40,140**	41,000
14⅝% Collateral Trust Bonds due 1992	**93,172**	—
10.35% Collateral Trust Bonds due 1994	**55,949**	61,082
11¼% Collateral Trust Bonds due 1995	**54,172**	55,974
6.9% – 14⅜% Equipment Trust Certificates due 1983-1993	**163,016**	174,026
Obligations under capital leases due 1983-1987	**21,744**	5,386
Bank loans and sundry borrowings due 1983-1991	**371,154**	273,624
Canadian Pacific Air Lines, Limited		
Bank loans due 1984-1997	**155,012**	162,728
Canadian Pacific (Bermuda) Limited		
Mortgages due 1985-1988	**68,295**	87,176
8¼% Notes due 1984	**26,476**	28,090
Bank loans due 1985-1990	**70,198**	14,091
Canadian Pacific Steamships, Limited		
Bank loan due 1983-1987	**5,810**	3,440
Obligations under capital leases due 1983-1988	**29,694**	29,253
Soo Line Railroad Company		
6⅛% – 13⅝% Equipment Trust Certificates due 1983-1996	**99,768**	108,816
Sundry – due 1983-2029	**23,108**	27,454
PanCanadian Petroleum Limited		
Bank loans due 1983-1991	**84,210**	121,925
8⅛% – 16½% Debentures due 1983-1992	**143,000**	144,250
Cominco Ltd.		
Bank loans due 1983-1994	**483,153**	370,604
8½% – 10⅞% Sinking Fund Debentures due 1991-1995	**100,962**	101,698
Notes due 1983-1996	**46,759**	49,895
Subsidiaries of Cominco Ltd.	**87,558**	55,989
CIP Inc.		
Bank loans due 1985-1996	**758,657**	340,308
Balance of purchase price due 1982	**—**	510,000
Sundry – due 1983-1993	**22,161**	2,948
Great Lakes Forest Products Limited		
Bank loans due 1985-1986	**84,144**	—
8% – 11¼% Sinking Fund Bonds due 1989-1995	**41,188**	43,085
8¾% Debentures due 1984	**12,143**	17,506
Sundry – due 1983-1987	**17,224**	14,932
The Algoma Steel Corporation, Limited		
Bank loan due 1993	**4,301**	—
7⅜% – 17⅜% Sinking Fund Debentures due 1987-1997	**198,699**	148,699
Floating Rate Debenture due 1990	**122,434**	—
Floating Rate Income Debentures due 1994-1999	**106,880**	106,880
9.65% Note due 2000	**35,000**	35,000
AMCA International Limited		
Bank loans due 1983-1996	**273,662**	195,909
9% – 10¼% Debentures due 1984-1986	**63,124**	63,124
Other notes payable 1983-1997	**88,215**	107,272

	1982	1981
Marathon Realty Company Limited		
Bank loans due 1983-1987	**113,413**	136,941
6½% – 17½% Sinking Fund Bonds due 1987-2002	**151,734**	119,835
Mortgages due 1983-2014	**373,343**	328,630
Sundry – due 1983-2001	**80,392**	89,200
Maple Leaf Mills Limited		
Bank loan due 1990	**10,000**	10,000
8½% – 11⅝% Sinking Fund Debentures due 1988-1998	**45,573**	48,169
Sundry – due 1983-1988	**8,425**	9,957
CanPac AgriProducts Limited		
Sundry – due 1983-1990	**18,868**	21,885
Canadian Pacific Hotels Limited		
8⅝% – 11⅜% First Mortgage Sinking Fund Bonds due 1992-1995	**43,067**	44,568
Sundry – due 1983-1993	**6,345**	6,706
Canadian Pacific Securities Limited		
Bank loan due 1983-1985	**3,210**	3,210
8¼% – 10½% Debentures due 1984-1993	**92,150**	94,586
9¼% – 17¾% Notes due 1983-1989	**223,134**	75,000
6⅜% – 7½% Guaranteed Notes due 1988	**154,230**	—
Other companies	**46,833**	39,313
	5,538,691	4,647,637
Less: Long term debt maturing within one year	**403,377**	285,823
	$ 5,135,314	$ 4,361,814

Collateral Trust Bonds of Canadian Pacific Limited are secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount $762,175,000 at December 31, 1982 (1981 – $557,637,000).

Of the aggregate bank loans of $2,534,524,000 included above, approximately $2,018,435,000 bear interest at rates which fluctuate with bank prime or money market rates.

At December 31, 1982, foreign currency long term debt, denominated principally in United States dollars, translated at current rates would be $2,568,951,000, which is $112,884,000 more than the amount at which it is carried above.

Annual maturities and sinking fund requirements for each of the five years following 1982 are:

1983 – $403,377,000; 1984 – $430,409,000; 1985 – $445,042,000; 1986 – $433,606,000; 1987 – $523,305,000.

12. Perpetual 4% Consolidated Debenture Stock

	1982				1981
	(in thousands)				
Currency of Issue	*Sterling*	*United States Dollar*	*Canadian Dollar*	*Total*	*Total*
Issued	£ 46,757	$ 563,374	$ 263,801	**$ 1,054,724**	$ 850,186
Less: Pledged as collateral	—	498,374	263,801	**762,175**	557,637
	£ 46,757	$ 65,000	$ —	**$ 292,549**	$ 292,549

Sterling translated at Canadian $4.86⅔ to the £1; U.S. dollars on the basis of one Canadian dollar equals one U.S. dollar. At December 31, 1982 translated at current rates, the net amount outstanding would be $173,463,000.

13. Minority Shareholders' Interest in Subsidiary Companies

	1982	1981
	(in thousands)	
Canadian Pacific Air Lines, Limited		
Floating rate preference shares, series A	**$ 50,000**	$ 50,000
Soo Line Railroad Company	**111,555**	110,738
Canadian Pacific Enterprises Limited	**885,437**	807,769
PanCanadian Petroleum Limited	**117,969**	102,689
Cominco Ltd.		
$2.00 Tax deferred exchangeable preferred shares, series A	**44,709**	46,502
Floating rate preferred shares, series C	**50,000**	50,000
$3.25 Cumulative redeemable preferred shares, series D	**50,000**	—
Common share equity	**353,156**	391,091
Steep Rock Iron Mines Limited	**12,944**	13,759
CIP Inc.	**29,642**	33,637
Great Lakes Forest Products Limited	**152,537**	149,903
The Algoma Steel Corporation, Limited		
8% Tax deferred preference shares, series A	**50,530**	53,530
Floating rate preference shares	**80,000**	80,000
Common share equity	**315,093**	371,992
AMCA International Limited	**271,650**	204,423
Other	**11,369**	11,309
	$ 2,586,591	$ 2,477,342

14. Preferred Shares

The series A preferred shares are redeemable at the Company's option at $10.25 per share on or before January 1, 1984 and at $10.00 thereafter. In addition, shares may be purchased for cancellation at any time subject to certain price restrictions.

The Company is obligated to apply up to $2,000,000 in each year to the purchase of series A preferred shares, if available, at a price not exceeding $10.25 per share plus costs of purchase. The price decreases to $10.00 after January 1, 1984.

	1982		1981		1980	
	Number	Amount	Number	Amount	Number	Amount
			(in thousands)			
Balance, January 1	**1,660**	**$ 16,596**	1,979	$ 19,790	2,197	$ 21,974
Purchased	**237**	**2,365**	319	3,194	218	2,184
Balance, December 31	**1,423**	**$ 14,231**	1,660	$ 16,596	1,979	$ 19,790
Total cost of shares purchased		**$ 1,978**		$ 2,597		$ 1,967

15. Preference Stock

At December 31, 1982, Canadian Pacific Enterprises (Finance) N.V. (a wholly-owned indirect subsidiary of Canadian Pacific Enterprises Limited) held preference stock in the Company with a par value of $878,000 at a total cost of $452,000.

16. Industry Segments	1982	1981	1980
	(in thousands)		
Identifiable assets			
CP Rail	$ 2,657,616	$ 2,526,640	$ 2,303,363
CP Air	931,319	844,749	643,891
CP Ships	752,341	718,047	615,194
CP Trucks	152,527	140,345	122,783
Soo Line Railroad Company	557,046	546,222	497,712
CP Telecommunications	266,162	219,546	155,006
Miscellaneous	91,156	338,621	411,748
Canadian Pacific Enterprises Limited			
Oil and Gas	1,776,930	1,528,173	1,284,770
Mines and Minerals	2,350,785	2,196,655	1,737,745
Forest Products	2,464,268	2,299,658	722,931
Iron and Steel	3,180,669	2,913,085	2,249,706
Real Estate	1,193,222	1,083,030	948,925
Agriproducts	370,538	361,453	384,497
Other Businesses	285,434	277,533	266,309
Financial	1,137,058	838,857	1,139,683
Eliminations	(894,037)	(502,429)	(445,762)
	$ 17,273,034	$ 16,330,185	$ 13,038,501
Capital expenditures			
CP Rail	$ 314,252	$ 317,135	$ 242,676
CP Air	230,419	242,211	151,790
CP Ships	91,883	107,797	82,982
CP Trucks	15,415	21,089	14,745
Soo Line Railroad Company	14,334	36,471	55,113
CP Telecommunications	34,167	38,059	41,742
Miscellaneous	863	4,751	6,913
Canadian Pacific Enterprises Limited			
Oil and Gas	278,797	308,728	269,806
Mines and Minerals	283,291	471,107	341,625
Forest Products	271,491	227,770	63,684
Iron and Steel	222,276	327,419	140,961
Real Estate	161,659	174,728	137,072
Agriproducts	25,147	20,964	12,622
Other Businesses	22,106	24,203	23,145
Financial	610	295	157
	$ 1,966,710	$ 2,322,727	$ 1,585,033

17. Geographic Segments

	1982	*1981*	*1980*
		(in thousands)	
Canada			
Revenues			
Domestic	**$ 6,408,992**	$ 6,192,965	$ 5,270,947
Export – U.S.	**1,426,317**	1,598,011	1,129,909
– Other	**844,079**	729,650	517,779
International transportation revenues	**881,957**	906,415	812,130
Inter-area transfers	**275,722**	415,207	234,696
	9,837,067	9,842,248	7,965,461
Inter-company revenues	**(485,225)**	(447,074)	(347,532)
Total revenues	**9,351,842**	9,395,174	7,617,929
Net income before income taxes and minority interest	**371,460**	1,136,247	1,245,821
Net income	**$ 151,732**	$ 370,703	$ 457,480
Identifiable assets	**$ 14,153,312**	$ 13,303,278	$ 10,410,018
United States			
Revenues	**$ 2,558,114**	$ 2,610,433	$ 1,974,393
Inter-area transfers	**193,595**	222,768	231,435
Total revenues	**2,751,709**	2,833,201	2,205,828
Net income before income taxes and minority interest	**50,428**	194,818	192,456
Net income	**$ 31,356**	$ 55,010	$ 62,646
Identifiable assets	**$ 2,720,199**	$ 2,326,630	$ 1,960,211
Other Countries			
Revenues	**$ 385,314**	$ 409,663	$ 288,145
Inter-area transfers	**94,814**	45,348	13,548
Total revenues	**480,128**	455,011	301,693
Net income before income taxes and minority interest	**110,437**	74,465	49,178
Net income	**$ 25,241**	$ 16,084	$ 10,671
Identifiable assets	**$ 541,219**	$ 484,659	$ 498,840
International – Seagoing			
Revenues	**$ 269,939**	$ 336,203	$ 338,775
Net income before income taxes	**(19,956)**	43,197	53,799
Net income	**$ (20,035)**	$ 43,782	$ 52,360
Identifiable assets	**$ 752,341**	$ 718,047	$ 615,194
Summary			
Revenues	**$ 12,853,618**	$ 13,019,589	$ 10,464,225
Inter-area transfers	**(564,131)**	(683,323)	(479,679)
Total revenues	**12,289,487**	12,336,266	9,984,546
Net income	**$ 188,294**	$ 485,579	$ 583,157
Identifiable assets	**$ 18,167,071**	$ 16,832,614	$ 13,484,263
Eliminations	**(894,037)**	(502,429)	(445,762)
	$ 17,273,034	$ 16,330,185	$ 13,038,501

18. Pensions

At December 31, 1982, there were unfunded liabilities, determined by actuarial evaluations, of $750,000,000, which is being funded by series of equal annual payments ending from 1983 to 2004, and $223,000,000, which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was $247,000,000 in 1982 (1981 – $225,000,000; 1980 – $187,000,000).

19. Commitments

At December 31, 1982, commitments for capital expenditures amounted to $877,000,000 and minimum payments under operating leases were estimated at $637,000,000 in the aggregate, with annual payments in each of the five years following 1982 of:

1983 – $95,000,000; 1984 – $78,000,000;
1985 – $64,000,000; 1986 – $51,000,000;
1987 – $43,000,000.

At December 31, 1982, unused commitments for long term financing amounted to $1,252,000,000 at interest rates varying from 8% to 8¾% on $250,000,000 and bank prime or money market rates on $1,002,000,000 with commitment fees on $859,000,000 ranging from ⅛% to ½%.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $997,000,000 including $829,000,000 on which interest rates vary with bank prime or money market rates.

20. Contingencies

The Company is a defendant in two actions brought by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Company operates under a perpetual lease, alleging misuse of assets, breaches and termination of the perpetual lease, and claiming entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands and, in the alternative, substantial damages. The trial of these actions was concluded in December 1977 and the plaintiffs' actions succeeded in part. The Company appealed and the plaintiffs cross-appealed. On December 21, 1981, the Ontario Court of Appeal pronounced judgment allowing the Company's appeals, dismissing the plaintiffs' cross-appeals and substantially reversing the partial success that the plaintiffs had achieved at trial. The resulting judgments will not have any adverse effect on the financial condition of the Company. On June 22, 1982, the plaintiffs obtained leave to appeal to the Supreme Court of Canada from the judgments of the Court of Appeal but their appeals have not yet been heard. The Company believes that these appeals will not result in a judgment that will have a materially adverse effect on the financial condition of the Company.

On September 4, 1981, a representative of the holders of the consolidated debenture stock of the Ontario and Quebec Railway Company, who had been granted status by the Court as an intervenant in the above-mentioned appeal proceedings, commenced an action in the Supreme Court of Ontario on their behalf and on behalf of the minority shareholders of the Ontario and Quebec Railway Company against the Company, the Mercantile-Safe Deposit & Trust Company, and the Ontario and Quebec Railway Company seeking declarations respecting the ownership of rolling stock of the Company, a series of accounting proceedings relating to the rolling stock, a declaration that the Company's perpetual lease of the Ontario and Quebec Railway is void and damages. Counsel for the Company are of the opinion that this action can be successfully defended.

21. Acquisitions

On July 6, 1982, through an indirect wholly-owned subsidiary, AMCA International made a cash tender offer for any or all of the outstanding common shares of Giddings & Lewis, Inc., a U.S. company engaged in the design, manufacture and sale of machine tools, machine tool accessories and industrial products. As of the conclusion of the tender offer on August 2, 1982, approximately 97% of the shares had been purchased. The remaining shares were acquired on October 4, 1982, pursuant to a merger between Giddings & Lewis and an AMCA subsidiary.

A summary of the assets acquired and the consideration given is as follows:

	(in thousands)
Net assets acquired at values assigned thereto:	
Assets	$ 485,999
Liabilities	196,558
	289,441
Excess of purchase price over fair value of assets acquired, ascribed to goodwill	100,541
	$ 389,982
Consideration given:	
Cash	$ 105,712
Bank loan due 1984-1988	284,270
	$ 389,982

On October 1, 1981, a subsidiary of Enterprises acquired all the common stock of CIP Inc. at a cost of $1,102,770,000. The consideration was initially provided by $102,770,000 from cash on hand and $340,000,000 from bank loans; the balance was paid on January 4, 1982, by $150,000,000 from cash on hand and $510,000,000 from bank loans. Maple Leaf Mills Limited acquired in April 1981 Gordon Young Limited, for $4,895,000 in cash and $5,000,000 in notes.

In July 1980, a subsidiary of Enterprises acquired Maple Leaf Mills Limited for $121,569,000. In the same month, Pacific Forest Products acquired Victoria Plywood Ltd. The acquisition was accomplished by an exchange of common shares of Enterprises, the equivalent of $18,000,000. In September 1980, AMCA acquired Koehring Company for $161,270,000. In October 1980, Cominco purchased a block of shares of Bethlehem Copper Corporation for $61,013,000, which raised its 39.2% equity interest, book value $41,313,000, to 64.4%. During 1981, Cominco purchased additional shares of Bethlehem Copper for $90,146,000 to bring its holding to 100%. Except for Victoria Plywood, the purchase consideration in each case was cash, which approximated the values assigned to the net assets acquired.

All these acquisitions were accounted for as purchases and consolidated from the dates of acquisition, and, with the exception of CIP Inc., they had no material effect upon the consolidated financial position or consolidated net income of the Company. In addition, if Giddings & Lewis had been consolidated as of January 1, 1981, the acquisition would have had no material effect.

22. Subsequent Events

On February 1, 1983 the Minister of Transport announced the Federal Government's intention to table in Parliament early in the next session a comprehensive bill to replace the fixed Crow Rate with a new grain transportation regime. This bill will provide for: a statutory payment of a "Crow Benefit" of $651,600,000 per year, of which a declining percentage would be paid over the years to the railways and an increasing percentage to grain producers, thereby assisting the latter to pay higher prices for the movement of their grain; a sharing by Government and producers of future increases in the cost of grain transportation; specific railway performance and investment guarantees; a major review of the method of payment and cost-sharing arrangements in 1985-86.

The Minister also announced that pending the introduction of the Crow legislation, the Government would make interim payments to the railways to compensate them for a portion of their revenue losses from the movement of grain in the 1982-83 crop year. The amount to be paid is $313,000,000, of which CP Rail would receive approximately 50%. These interim payments are to be over and above the ongoing branch line compensation payments to the railways. In addition, the Government decided to extend for five years the incentive capital cost allowances on railway track and other assets. The Company advised the Government that the interim payments and the extension of the capital cost allowances would enable CP Rail to undertake a program of cash capital expenditures in 1983 of $315,000,000.

On January 1, 1983 the Company transferred to its subsidiary, Canadian Pacific Air Lines, Limited (CP Air), certain aircraft assets, in exchange for common shares of CP Air and the assumption by CP Air of certain Company indebtedness. As a result of the transfer, the Company's equity investment in CP Air increased by approximately $151,000,000.

23. Reclassifications

Certain prior years' expenses have been reclassified to conform with the presentation adopted for 1982.

24. Supplementary Data

The discussion of Canadian and United States Accounting Principles included in Supplementary Data is an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Company's United States shareholders, the major differences are described below and their effect on the Company's net income is summarized, their effect on the balance sheet not being significant.

The full cost method of accounting for Oil and Gas as promulgated by the SEC differs from the method followed by the Company in a number of respects. The primary differences are that Canadian GAAP permits capitalization of overhead which the SEC requires to be expensed and that Canadian GAAP permits the use of a world-wide full cost pool whereas the SEC requires that the full cost pool be established on a country-by-country basis.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate segment in accordance with Canadian GAAP are not acceptable methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of translating foreign currency denominated long term debt (excluding the current portion) at historic exchange rates, whereas United States GAAP (Financial Accounting Standards Board Statement No. 8) requires such debt to be translated at current rates.

	1982	*1981*	*1980*
		(in thousands)	
Net income – Canadian GAAP	$ 188,294	$ 485,579	$ 583,157
Increased or (decreased) by:			
Oil and Gas	(10,802)	(7,236)	(3,620)
Real Estate	(3,742)	(3,902)	(1,847)
Deferred Income Taxes	(37,206)	—	—
Foreign Exchange	(40,102)	12,846	(1,132)
	(91,852)	1,708	(6,599)
Net income – United States GAAP	$ 96,442	$ 487,287	$ 576,558
Earnings per Ordinary Share:			
Canadian GAAP	$ 2.60	$ 6.75	$ 8.11
United States GAAP	1.32	6.78	8.02

Oil and Gas Reporting

The following information on oil and gas producing activities was prepared in accordance with Financial Accounting Standards Board Statement No. 69 and has been included in accordance with the requirements of the Securities and Exchange Commission. PanCanadian Petroleum Limited, an indirect subsidiary of CP Limited, has prepared its financial statements utilizing the full cost method of accounting applied on a world-wide cost centre basis, in accordance with Canadian generally accepted accounting principles instead of in accordance with SEC full cost accounting requirements.

Oil and Gas Production, Exploration and Development (Unaudited)

	1982	*1981*
	(in thousands)	
Capitalized Costs		
Conventional petroleum and natural gas properties	$ 1,669,849	$ 1,456,613
Accumulated depletion and depreciation	470,355	393,235
	1,199,494	1,063,378
Other – net	334,919	280,697
	$ 1,534,413	$ 1,344,075

Costs Incurred in Conventional Oil and Gas Activities	*Property Acquisition*	*Exploration*	*Development*
Country		*(in thousands)*	
1982			
Canada	$ 12,890	$ 62,959	$ 92,108
United States	8,991	16,366	12,758
Other	6	7,165	—
	$ 21,887	$ 86,490	$ 104,866
1981			
Canada	$ 12,809	$ 59,522	$ 88,243
United States	6,345	20,831	6,021
Other	39	1,293	—
	$ 19,193	$ 81,646	$ 94,264
1980			
Canada	$ 24,637	$ 118,423	$ 82,578
United States	11,961	12,005	3,428
Other	3,507	2,639	—
	$ 40,105	$ 133,067	$ 86,006

Results of Operations for Producing Activities (Unaudited)

PanCanadian's conventional oil and gas producing activities may be summarized as follows:

	Canada	United States	Total
		(in thousands)	
1982			
Gross operating revenue	$ 603,572	$ 17,611	$ 621,183
Operating expenses	76,629	2,754	79,383
Depreciation	23,008	1,027	24,035
	99,637	3,781	103,418
Net operating revenue	$ 503,935	$ 13,830	517,765
Depletion			53,713
Income and revenue taxes			241,482
			295,195
Income from operations			$ 222,570
1981			
Gross operating revenue	$ 467,398	$ 17,515	$ 484,913
Operating expenses	56,256	2,170	58,426
Depreciation	17,879	802	18,681
	74,135	2,972	77,107
Net operating revenue	$ 393,263	$ 14,543	407,806
Depletion			43,974
Income and revenue taxes			165,696
			209,670
Income from operations			$ 198,136
1980			
Gross operating revenue	$ 429,097	$ 11,118	$ 440,215
Operating expenses	47,942	1,526	49,468
Depreciation	13,884	555	14,439
	61,826	2,081	63,907
Net operating revenue	$ 367,271	$ 9,037	376,308
Depletion			41,936
Income and revenue taxes			107,510
			149,446
Income from operations			$ 226,862

The full cost method of accounting on a world-wide cost centre basis does not permit a meaningful segmentation of depletion. The income and revenue taxes relate to Canada only, as the United States operations are in a non-taxable position.

Oil and Gas Reserves (Unaudited)

PanCanadian's net proved reserves of conventional oil, natural gas and natural gas liquids as estimated by PanCanadian engineers are summarized below. "Net" reserves are the gross reserves underlying the properties in which PanCanadian has either a working interest or a royalty interest, less all royalties and interests owned by others.

	Oil (including natural gas liquids) (thousands of barrels)			*Gas (billion cubic feet)*		
	Canada	*United States*	*Total*	*Canada*	*United States*	*Total*
Net proved reserves: December 31, 1979	105,239	787	106,026	2,149	15	2,164
Revisions of previous estimates	1,752	184	1,936	(172)	9	(163)
Extensions and discoveries	5,067	247	5,314	402	2	404
1980 Production	(12,829)	(213)	(13,042)	(101)	(2)	(103)
Net proved reserves: December 31, 1980	99,229	1,005	100,234	2,278	24	2,302
Revisions of previous estimates	9,661	(310)	9,351	128	(5)	123
Extensions and discoveries	7,122	217	7,339	149	1	150
1981 Production	(12,221)	(234)	(12,455)	(99)	(3)	(102)
Net proved reserves: December 31, 1981	103,791	678	104,469	2,456	17	2,473
Revisions of previous estimates	3,363	(5)	3,358	96	2	98
Extensions and discoveries	5,188	292	5,480	126	6	132
1982 Production	(12,244)	(218)	(12,462)	(113)	(2)	(115)
Net proved reserves: December 31, 1982	100,098	747	100,845	2,565	23	2,588

Proved reserves are considered to be those reserves which geological and engineering data demonstrate with a high degree of certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's proved natural gas and associated liquids reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids reserves are considered to be developed even though additional drilling will be required in certain cases to drain effectively the respective reservoirs in a desirable length of time.

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

The Financial Accounting Standards Board acknowledges that the standardized measure of discounted net cash flows cannot be considered an estimate of fair market value. Likewise it follows that the inclusion of this information should not be interpreted as indicating that PanCanadian believes that valid inferences as to the probable measure of fair market value or future economic position can be derived therefrom. The method gives no recognition of the value that can be attributed to unproved acreage or to probable reserves that may be recovered from existing proved properties.

The prescribed discount factor of 10% applied uniformly to all conventional oil and gas activities may not be appropriate in all circumstances, and the requirement that oil and gas price increases cannot be anticipated beyond those established at the year end or by existing contractual arrangements may not be realistic over the estimated producing life of the reserves under consideration.

The standardized measure of discounted future net cash flows is set forth below:

	Canada	*United States*	*Total*
		(in thousands)	
1982			
Future cash inflows	$ 11,085,024	$ 98,578	$ 11,183,602
Future production and development costs	2,497,366	21,687	2,519,053
Future income tax expenses	2,990,681	—	2,990,681
Future revenue tax expenses	1,281,116	—	1,281,116
Future net cash flows	4,315,861	76,891	4,392,752
10% annual discount for estimated timing of cash flows	2,380,517	24,605	2,405,122
Standardized measure of discounted future net cash flows	$ 1,935,344	$ 52,286	$ 1,987,630
1981			
Future cash inflows	$ 15,917,872	$ 69,256	$ 15,987,128
Future production and development costs	3,409,419	15,236	3,424,655
Future income tax expenses	4,691,877	—	4,691,877
Future revenue tax expenses	1,905,271	—	1,905,271
Future net cash flows	5,911,305	54,020	5,965,325
10% annual discount for estimated timing of cash flows	3,532,238	21,713	3,553,951
Standardized measure of discounted future net cash flows	$ 2,379,067	$ 32,307	$ 2,411,374

Future net cash flows were computed using year end costs and year end statutory tax rates (adjusted for permanent differences) that relate to existing proved oil and gas reserves. Prices utilized in estimating future cash flows from Canadian reserves were escalated in accordance with the terms of the federal-provincial energy pricing and taxation agreements which provide that the Canadian price of old oil will not exceed 75% of world price. As a result of current world economic conditions, no oil price increase beyond that scheduled for July 1, 1983 has been anticipated, and natural gas prices utilized in calculating 1982 results do not reflect any price escalation.

The following table sets out the principal sources of change in the standardized measure of discounted future net cash flows:

	1982	*1981*	*1980*
		(in thousands)	
Standardized measure of discounted future net cash flows at beginning of year	$ 2,411,374	$ 1,434,060	$ 1,218,880
Add:			
Net changes in prices and production costs	—	2,645,498	763,046
Additions to proved reserves net of capital and production costs	126,521	147,429	54,617
Expenditures that reduced estimated future development costs	83,210	83,541	78,098
Accretion of discount	520,567	262,751	193,650
Revisions of previous estimates	646,197	—	—
Net changes in income and revenue taxes	799,418	—	—
	2,175,913	3,139,219	1,089,411
Less:			
Net changes in prices and production costs	2,058,285	—	—
Sales of oil and gas produced, net of production costs and mineral taxes	541,372	426,258	390,687
Revisions of previous estimates	—	134,793	7,718
Net changes in income and revenue taxes	—	1,600,854	475,826
	2,599,657	2,161,905	874,231
Standardized measure of discounted future net cash flows at end of year	$ 1,987,630	$ 2,411,374	$ 1,434,060

Taxation of United States Shareholders

Under the terms of proposed Canadian tax legislation and the United States-Canada tax convention, taxable dividends paid after November 12, 1981 to United States resident shareholders of CP Limited (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by non-residents of securities issued by CP Limited are exempt from Canadian tax unless the securities are held in the conduct of a Canadian business.

Quarterly Financial Information (Unaudited) 1982
Statement of Consolidated Income

For the three months ended	*March 31*	*June 30*	*September 30*	*December 31*
		(in thousands)		
CP Rail				
Revenues	$ 532,693	$ 541,091	$ 500,789	$ 572,501
Expenses including income taxes	518,770	515,748	471,839	522,844
Net income	13,923	25,343	28,950	49,657
CP Air				
Revenues	180,815	224,357	277,965	197,597
Expenses including income taxes	200,539	232,613	266,866	215,408
	(19,724)	(8,256)	11,099	(17,811)
Preference dividend	1,142	1,160	1,208	1,012
Net income	(20,866)	(9,416)	9,891	(18,823)
CP Ships				
Revenues	68,402	75,316	64,329	61,892
Expenses including income taxes	71,845	75,263	72,529	70,337
Net income	(3,443)	53	(8,200)	(8,445)
CP Trucks				
Revenues	72,648	74,497	72,548	72,069
Expenses including income taxes	72,600	73,523	71,204	72,884
Net income	48	974	1,344	(815)
Soo Line Railroad Company				
Revenues	95,486	93,803	91,902	86,570
Expenses including income taxes	83,646	83,759	92,678	83,187
	11,840	10,044	(776)	3,383
Minority interest	5,246	4,451	(344)	1,499
Net income	6,594	5,593	(432)	1,884
CP Telecommunications				
Revenues	37,980	38,489	38,392	37,576
Expenses including income taxes	36,961	37,188	36,983	36,202
Net income	1,019	1,301	1,409	1,374
Miscellaneous				
Net income	719	(1,153)	3,513	298
Transportation and Miscellaneous				
Net income	(2,006)	22,695	36,475	25,130
Canadian Pacific Enterprises Limited				
Revenues	2,189,458	2,231,684	1,988,754	2,084,767
Expenses including income taxes	2,086,190	2,136,229	1,993,002	2,080,418
	103,268	95,455	(4,248)	4,349
Minority interest	54,404	54,423	(10,649)	(5,354)
Net income	48,864	41,032	6,401	9,703
Net Income	$ 46,858	$ 63,727	$ 42,876	$ 34,833
Earnings per Ordinary Share	$ 0.65	$ 0.88	$ 0.59	$ 0.48

Quarterly Financial Information (Unaudited) 1981
Statement of Consolidated Income

For the three months ended	*March 31*	*June 30*	*September 30*	*December 31*
		(in thousands)		
CP Rail				
Revenues	$ 500,441	$ 520,677	$ 502,141	$ 547,718
Expenses including income taxes	461,588	484,849	474,801	522,571
Net income	38,853	35,828	27,340	25,147
CP Air				
Revenues	166,725	204,282	271,059	185,506
Expenses including income taxes	175,524	209,557	258,230	201,756
	(8,799)	(5,275)	12,829	(16,250)
Preference dividend	1,204	1,257	1,430	1,395
Net income	(10,003)	(6,532)	11,399	(17,645)
CP Ships				
Revenues	93,912	80,577	84,382	77,332
Expenses including income taxes	73,599	76,127	67,860	74,835
Net income	20,313	4,450	16,522	2,497
CP Trucks				
Revenues	66,316	71,675	75,549	78,006
Expenses including income taxes	66,198	70,223	73,535	76,124
Net income	118	1,452	2,014	1,882
Soo Line Railroad Company				
Revenues	98,902	99,163	110,395	105,875
Expenses including income taxes	85,688	90,667	101,748	94,918
	13,214	8,496	8,647	10,957
Minority interest	5,855	3,765	3,831	4,855
Net income	7,359	4,731	4,816	6,102
CP Telecommunications				
Revenues	32,228	33,971	35,398	35,301
Expenses including income taxes	31,112	32,732	34,753	33,365
Net income	1,116	1,239	645	1,936
Miscellaneous				
Net income	3,668	418	1,500	11,407
Transportation and Miscellaneous				
Net income	61,424	41,586	64,236	31,326
Canadian Pacific Enterprises Limited				
Revenues	1,917,160	2,160,008	1,994,302	2,487,289
Expenses including income taxes	1,763,451	1,987,364	1,838,658	2,344,810
	153,709	172,644	155,644	142,479
Minority interest	81,713	94,635	81,694	79,427
Net income	71,996	78,009	73,950	63,052
Net Income	$ 133,420	$ 119,595	$ 138,186	$ 94,378
Earnings per Ordinary Share	$ 1.86	$ 1.66	$ 1.92	$ 1.31

Quarterly Financial Information (Unaudited) 1982

Canadian Pacific Enterprises Limited – Net Income

For the three months ended	*March 31*	*June 30*	*September 30*	*December 31*
	(in thousands)			
Oil and Gas				
Gross operating revenue	$ 184,508	$ 177,452	$ 190,958	$ 239,681
Expenses including income taxes	132,515	129,196	132,264	167,958
	51,993	48,256	58,694	71,723
Interest of outside shareholders	6,717	6,235	7,583	9,267
Net income	45,276	42,021	51,111	62,456
Mines and Minerals				
Gross operating revenue	338,326	495,293	349,043	371,672
Expenses including income taxes	353,046	473,183	368,602	382,570
	(14,720)	22,110	(19,559)	(10,898)
Interest of outside shareholders	(6,128)	9,066	(8,511)	(4,296)
Net income	(8,592)	13,044	(11,048)	(6,602)
Forest Products				
Sales and operating revenue	474,870	421,010	374,990	383,258
Expenses including income taxes	478,281	441,382	406,100	421,025
	(3,411)	(20,372)	(31,110)	(37,767)
Interest of outside shareholders	5,194	875	2,116	(3,501)
Net income	(8,605)	(21,247)	(33,226)	(34,266)
Iron and Steel				
Sales and operating revenue	774,060	667,287	611,247	627,877
Expenses including income taxes	724,400	643,615	652,718	663,936
	49,660	23,672	(41,471)	(36,059)
Interest of outside shareholders	27,840	20,530	(15,157)	(11,694)
Net income	21,820	3,142	(26,314)	(24,365)
Real Estate				
Gross rentals and other income	65,024	60,924	54,473	70,644
Expenses including income taxes	55,119	55,597	50,564	63,218
	9,905	5,327	3,909	7,426
Interest of outside shareholders	83	85	94	93
Net income	9,822	5,242	3,815	7,333
Agriproducts				
Gross operating revenue	257,632	301,413	275,887	302,541
Expenses including income taxes	253,303	294,460	273,605	297,296
	4,329	6,953	2,282	5,245
Interest of outside shareholders	427	529	544	689
Net income	3,902	6,424	1,738	4,556
Other Businesses				
Gross operating revenue	70,706	84,490	95,885	76,279
Expenses including income taxes	69,966	80,212	87,314	74,600
Net income	740	4,278	8,571	1,679
Financial				
Gross operating revenue	35,309	39,393	58,369	36,472
Expenses including income taxes	30,537	34,162	43,933	33,472
Net income	4,772	5,231	14,436	3,000
Canadian Pacific Enterprises Limited-Net income	69,135	58,135	9,083	13,791
Minority interest	20,271	17,103	2,682	4,088
Net Income	$ 48,864	$ 41,032	$ 6,401	$ 9,703

Quarterly Financial Information (Unaudited) 1981

Canadian Pacific Enterprises Limited – Net Income

For the three months ended	*March 31*	*June 30*	*September 30*	*December 31*
		(in thousands)		
Oil and Gas				
Gross operating revenue	$ 174,137	$ 145,912	$ 159,082	$ 162,791
Expenses including income taxes	120,643	101,498	108,320	107,724
	53,494	44,414	50,762	55,067
Interest of outside shareholders	6,911	5,739	6,558	7,115
Net income	46,583	38,675	44,204	47,952
Mines and Minerals				
Gross operating revenue	406,167	490,680	402,918	425,670
Expenses including income taxes	388,554	466,173	381,921	401,401
	17,613	24,507	20,997	24,269
Interest of outside shareholders	10,262	14,754	12,050	12,658
Net income	7,351	9,753	8,947	11,611
Forest Products				
Sales and operating revenue	174,744	186,824	161,783	503,263
Expenses including income taxes	154,229	166,999	146,275	508,385
	20,515	19,825	15,508	(5,122)
Interest of outside shareholders	9,302	9,112	8,597	7,488
Net income	11,213	10,713	6,911	(12,610)
Iron and Steel				
Sales and operating revenue	744,592	824,401	827,529	915,867
Expenses including income taxes	698,143	763,325	783,438	866,664
	46,449	61,076	44,091	49,203
Interest of outside shareholders	25,445	32,657	23,558	25,573
Net income	21,004	28,419	20,533	23,630
Real Estate				
Gross rentals and other income	53,299	56,150	49,544	67,996
Expenses including income taxes	46,608	49,842	45,582	60,656
	6,691	6,308	3,962	7,340
Interest of outside shareholders	44	60	95	75
Net income	6,647	6,248	3,867	7,265
Agriproducts				
Gross operating revenue	266,367	329,605	260,164	309,097
Expenses including income taxes	262,702	323,624	255,199	301,947
	3,665	5,981	4,965	7,150
Interest of outside shareholders	425	443	512	443
Net income	3,240	5,538	4,453	6,707
Other Businesses				
Gross operating revenue	73,649	85,332	97,142	78,415
Expenses including income taxes	72,235	80,281	86,627	78,529
Net income	1,414	5,051	10,515	(114)
Financial				
Gross operating revenue	39,429	42,142	44,801	41,828
Expenses including income taxes	35,561	36,660	39,957	37,142
Net income	3,868	5,482	4,844	4,686
Canadian Pacific Enterprises Limited-Net income	101,320	109,879	104,274	89,127
Minority interest	29,324	31,870	30,324	26,075
Net Income	$ 71,996	$ 78,009	$ 73,950	$ 63,052

Five-Year Summary

	1982	1981	1980	1979	1978
	(Figures in thousands, except amounts per share)				
Revenues	**$ 12,289,487**	$ 12,336,266	$ 9,984,546	$ 8,177,779	$ 6,724,540
Net income from:					
CP Rail	**$ 117,873**	$ 127,168	$ 121,595	$ 108,737	$ 75,945
CP Air	**(39,214)**	(22,781)	2,853	13,120	19,998
CP Ships	**(20,035)**	43,782	52,360	26,320	(8,654)
CP Trucks	**1,551**	5,466	(1,527)	(1,861)	2,158
Soo Line Railroad Company	**13,639**	23,008	23,076	17,799	14,815
CP Telecommunications	**5,103**	4,936	4,955	6,005	2,979
Miscellaneous	**3,377**	16,993	16,898	3,527	8,011
Canadian Pacific Enterprises Limited	**106,000**	287,007	362,947	334,495	234,534
Net income	**$ 188,294**	$ 485,579	$ 583,157	$ 508,142	$ 349,786
Total assets	**$ 17,273,034**	$ 16,330,185	$ 13,038,501	$ 11,002,393	$ 9,255,931
Total long term debt	**$ 5,538,691**	$ 4,647,637	$ 2,997,437	$ 2,623,631	$ 2,454,214
Perpetual 4% Consolidated Debenture Stock	**292,549**	292,549	292,549	292,549	292,549
Minority shareholders' interest in subsidiary companies	**2,586,591**	2,477,342	2,251,899	1,754,260	1,310,844
Shareholders' equity	**3,990,981**	3,929,369	3,523,186	2,987,948	2,586,699
Total capitalization	**$ 12,408,812**	$ 11,346,897	$ 9,065,071	$ 7,658,388	$ 6,644,306
Per Ordinary Share:					
Net income	**$ 2.60**	$ 6.75	$ 8.11	$ 7.06	$ 4.85
Dividends for the year*	**1.65**	1.90	1.85	1.70	1.10

*Effective in 1982, dividends are declared on a quarterly rather than on a semi-annual basis.
Number of Ordinary shares remained unchanged at 71,662,280.

Geographic Distribution of Net Property Investment

at December 31, 1982	*Properties, at Cost less Depreciation* *(in millions)*	*Percent of Total*
Canada		
Atlantic Provinces	**$ 320**	3
Quebec	**1,134**	9
Ontario	**2,715**	23
Manitoba	**179**	1
Saskatchewan	**319**	3
Alberta	**1,782**	15
British Columbia	**1,667**	14
N.W.T., Yukon & Offshore	**349**	3
Transportation Equipment	**1,463**	12
	9,928	83
Outside Canada		
United States	**1,398**	12
Other	**131**	1
Ocean Ships	**544**	4
	2,073	17
Total	**$ 12,001**	100

Ordinary Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1982		1981		**1982**		1981	
	High	Low	High	Low	High	Low	High	Low
	(Canadian dollars)				(U.S. dollars)			
First Quarter	**41⅞**	**28½**	49⅛	39⅞	**35¼**	**23½**	41⅜	33⅜
Second Quarter	**31⅛**	**24⅞**	50⅝	44⅛	**25½**	**19¼**	42½	36⅝
Third Quarter	**32⅜**	**24⅞**	55	40¼	**26**	**19¼**	44¼	33¼
Fourth Quarter	**36¾**	**29¼**	44¼	36⅞	**29¾**	**23⅝**	36⅝	31
Year	**41⅞**	**24⅞**	55	36⅞	**35¼**	**19¼**	44¼	31

Stock Transfer Agents

The Royal Trust Company

1660 Hollis Street,
Halifax, N.S. B3J 1V7;

Brunswick House,
1 King Street,
Saint John, N.B. E2L 1G1;

630 Dorchester Boulevard
West,
Montreal, Quebec H3B 1S6;

Royal Trust Tower,
Toronto-Dominion Centre,
Toronto, Ontario M5W 1P9;

330 St. Mary Avenue,
Winnipeg, Manitoba R3C 3Z5;

1862 Hamilton Street,
Regina, Saskatchewan
S4P 2B8;

700 The Dome Tower,
Toronto-Dominion Square,
333 – 7th Avenue S.W.,
Calgary, Alberta T2P 2Z1;

Royal Trust Tower,
Bentall Centre,
555 Burrard Street,
Vancouver, B.C. V7X 1K2.

Bank of Montreal Trust Company,
2 Wall Street,
New York, N.Y. 10005.

Deputy Secretary,
Canadian Pacific Limited,
50 Finsbury Square,
London, England EC2A 1DD.

Stock Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and London, Eng. Stock Exchanges.

Stock Holdings

The number of registered holdings of the voting capital stock of the Company at December 31, 1982 was 57,779.

The distribution by countries of total voting rights of the Ordinary and Preference Stock at that date was as follows:

Canada	75.02%
United States	16.06
United Kingdom	3.12
Other Countries	5.80
	100.00%

Shareholders having inquiries or wishing to obtain a copy of the Company's Form 10-K filed with the Securities and Exchange Commission should write to:

J.C. Ames,
Vice-President and Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Canada H3C 3E4

Board of Directors

***F.S. Burbidge**
Chairman and Chief Executive Officer,
Canadian Pacific Limited, Montreal

***Robert W. Campbell**
Vice-Chairman and Chief Executive Officer,
Canadian Pacific Enterprises Limited, Calgary

***Paul Desmarais, O.C.**
Chairman and Chief Executive Officer,
Power Corporation of Canada, Montreal

G. Arnold Hart, M.B.E., C.M.
Director and Former Chairman of the Board and Chief Executive Officer,
Bank of Montreal,
Mountain, Ontario

Allard Jiskoot
Director and Former Chairman of the Board,
Pierson, Heldring & Pierson N.V.,
Amsterdam, The Netherlands

Howard J. Lang
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Donald C. Matthews
President and General Manager,
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Chairman, Executive Committee of the Board of Directors,
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London, Ontario

***Paul L. Paré**
Chairman and Chief Executive Officer,
Imasco Limited, Montreal

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Director,
Bank of Scotland,
Edinburgh, Scotland

*†**Claude Pratte, Q.C.**
Partner,
Law firm of Letourneau, Stein & Amyot, Quebec

Lucien G. Rolland
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Rolland inc., Montreal

A.M. Runciman
Former President,
United Grain Growers Limited,
Winnipeg

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Crown Zellerbach Canada Limited,
Vancouver

F.H. Sherman
Chairman, President and Chief Executive Officer,
Dofasco Inc., Hamilton

Ian D. Sinclair
Chairman,
Canadian Pacific Enterprises Limited,
Toronto

***W.W. Stinson**
President,
Canadian Pacific Limited, Montreal

The Hon. John N. Turner, P.C., Q.C.
Partner,
Law firm of McMillan, Binch, Toronto

†**Kenneth A. White**
Chairman, President and Chief Executive Officer,
Royal Trustco Limited, Toronto

***Ray D. Wolfe**
Chairman of the Board and President,
The Oshawa Group Limited, Toronto

*Member of the Executive Committee
†Member of the Audit Committee

Officers

F.S. Burbidge
Chairman and Chief Executive Officer,
Montreal

W.W. Stinson
President, Montreal

Corporate Services

J.C. Ames
Vice-President and Secretary,
Montreal

J.C. Anderson
Vice-President Personnel, Montreal

J.P.T. Clough
Vice-President Finance and Accounting, Montreal

Donald S. Maxwell, Q.C.
Vice-President Law and General Counsel, Montreal

J.A. McDonald
Vice-President Industry Relations, Montreal

R.T. Riley
Vice-President Corporate, Montreal

I.B. Scott
Vice-President Administration and Public Affairs, Montreal

Marie E. Mottashed
Comptroller, Montreal

D.E. Sloan
Treasurer, Toronto

Directorate

At the Annual General Meeting of the Shareholders held on May 5, 1982, Mr. W.J. Bennett, O.B.E., retired, having attained the age limit for directors as prescribed in the Company's by-laws. The directors desire to record their recognition of the notable contributions made to the affairs of the Board and its Committees by Mr. Bennett during his tenure as a director. Also at that meeting the Board of Directors was increased from 22 to 23 members. Messrs. Robert W. Campbell and Paul Desmarais, O.C., were elected as directors to fill the two vacancies.

At the directors' meeting following the 1982 Annual General Meeting, Mr. Ian D. Sinclair stepped down from the position of Chairman of the Executive Committee and ceased to be a member of that Committee, although he continues as a director of the Company.

It is with deep regret that the Board of Directors records the untimely death in September 1982, of Allan Findlay, Q.C., who had been a member of the Board since 1973. The Board wishes to acknowledge the valuable counsel given and the service rendered by the late Allan Findlay as a director of the Company over the past decade.

Copies of the following 1982 annual reports can be obtained by writing to:

Canadian Pacific Enterprises Limited
Vice-President Administration and Secretary
Canadian Pacific Enterprises Limited
Suite 2300
125 – 9th Avenue S.E.
Calgary, Alberta T2G 0P6

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Secretary
Canadian Pacific Air Lines, Limited
Vancouver International Airport
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